

AR82



Pembina Pipeline Income Fund

2006 ANNUAL REPORT

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Forward-Looking Information and Statements

The information contained in this Annual Report contains certain forward-looking statements and information that are based on the Fund's current expectations, estimates, projections and assumptions in light of its experience and its perception of historical trends. In some cases, forward-looking statements and information can be identified by terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates", "intends", "targets", "believes", "estimates", "continue", "designed", "objective", "maintain", "schedule" and similar expressions. In particular, this Annual Report contains forward-looking statements with respect to: future stability and sustainability of cash distributions to Unitholders; ongoing expansions of and additions to our asset base; future growth and growth potential in Pembina's conventional pipelines, oil sands infrastructure and midstream operations; potential revenue enhancement; continued high levels of oil and gas activity and increased oil and gas production in proximity to our pipelines and other assets; additional throughput potential on additional connections; expected project start-up and construction dates; future distributions, payout ratios and taxation of distributions; the completion of future debt and equity financings; future capital expenditure requirements; the future development of the condensate project, CO₂ flooding and the expansion of midstream services. These statements are not guarantees of future performance and are subject to a number of known and unknown risks and uncertainties, including but not limited to, the impact of competitive entities and pricing, reliance on key alliances and agreements, the strength and operations of the oil and natural gas production industry and related commodity prices, regulatory environment, tax laws and treatment, fluctuations in operating results, the ability of Pembina to raise sufficient capital to complete future projects and satisfy future commitments, construction delays and labor and material shortages, and certain other risks detailed from time to time in the Fund's public disclosure documents. The Fund believes the expectations reflected in these forward-looking statements and information are reasonable as of the date hereof but no assurance can be given that these expectations will prove to be correct. Undue reliance should not be placed on these forward-looking statements and information as both known and unknown risks and uncertainties, including those business risks stated above, may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements and information. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. Such forward-looking statements and information are expressly qualified by the above statements. The Fund does not undertake any obligation to publicly update or revise any forward-looking statements or information contained herein, except as required by applicable laws.

OUR INTEGRATED BUSINESS MODEL





CORPORATE PROFILE Pembina Pipeline Income Fund, following nine years of expansion, diversification and development, is among the predominant issuers within the Canadian energy infrastructure income trust sector. With an enterprise value of \$2.6 billion and 126 million Trust Units outstanding, Pembina offers a stable, liquid trust sector investment.

Pembina's solid foundation of premium assets generates the consistent and sustainable monthly cash distributions to Unitholders that has become the hallmark of the Fund. A leader in Alberta's liquids feeder pipeline industry with a growing presence in the oil sands and midstream sectors, Pembina's dependable network of approximately 8,400 kilometres of pipeline and related assets provide an integral service to the western Canadian energy industry.

PEMBINA PIPELINE INCOME FUND Pembina Pipeline Income Fund, an unincorporated open-ended trust, pays monthly cash distributions to Unitholders. Pembina's publicly-traded securities trade on the Toronto Stock Exchange under the symbols: PIF.UN – Trust Units; PIF.DB.A and PIF.DB.B – convertible debentures. Pembina's corporate head office is located in Calgary, Alberta.

ANNUAL GENERAL MEETING Unitholders are invited to attend Pembina's annual general meeting on April 27, 2007 at 2:00 pm. The meeting will be held in the Grand Lecture Theatre, The Metropolitan Centre, 333 – 4th Avenue S.W., Calgary, Alberta.

2006 HIGHLIGHTS Consecutive annual increases in distributed cash reflects growth in both Pembina's asset and Unitholder base. Distributed cash rose by 25 percent in 2006.

	2006	2005
Revenue (millions)	\$ 335.8	\$ 290.5
Distributed cash ⁽¹⁾ (millions)	\$ 142.3	\$ 113.5
Distributed cash per Trust Unit ⁽¹⁾	\$ 1.165	\$ 1.05
Trust Units outstanding (weighted average in millions)	122.1	108.1
Average daily trading volume (units per day)	257,893	227,000
Total enterprise value ⁽¹⁾ (at December 31)	\$ 2,655.1	\$ 2,500.2
Total debt to total enterprise value	23.74%	27.30%
Throughput volumes (thousands of barrels per day) ⁽²⁾		
Alberta	425.8	411.6
BC ⁽³⁾	22.7	23.8
Total conventional pipelines	448.5	435.4
Oil sands infrastructure	389.0	389.0
Total	837.5	824.4

⁽¹⁾ Refer to "Non-GAAP Measures" on page 36.

⁽²⁾ Actual throughput reported for conventional pipelines and contracted capacity for oil sands.

⁽³⁾ Western system throughputs only.

Credit Agency Ratings⁽¹⁾

PEMBINA PIPELINE INCOME FUND

DBRS stability rating	STA-2 (low)
S&P stability rating	SR-2

PEMBINA PIPELINE CORPORATION

DBRS senior secured debt rating	BBB high
DBRS senior unsecured debt rating	BBB
S&P's credit profile rating	BBB
S&P's senior secured debt rating	BBB plus
S&P's senior unsecured debt rating	BBB

⁽¹⁾ As at March 8, 2007.

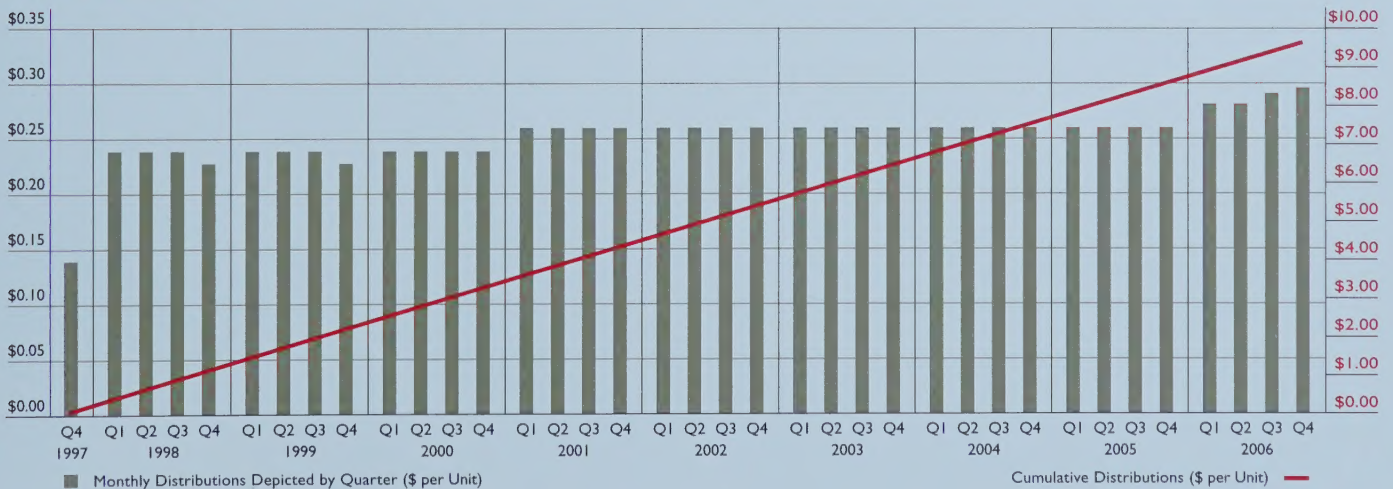
2006 Highlights

Comparative Total Returns

(Index Value)



Historic Distributions



OUR BUSINESS SEGMENTS Pembina has structured its conventional business to prosper in a dynamic energy environment. Our oil sands infrastructure provides a gateway to rapid development of the vast oil sands resource located in northeastern Alberta.

CONVENTIONAL PIPELINES

Alberta

Pembina's seven operated and two non-operated crude oil and natural gas liquids ("NGL") pipelines located in Alberta transported an average of 425,800 barrels per day in 2006. For the second consecutive year, Pembina reported increased throughputs on its Alberta pipelines, the result of record levels of oil and natural gas exploration and development activity in several of Pembina's key service regions.

British Columbia ("BC")

Pembina's BC pipelines consist of the gathering system upstream of Taylor, BC, Pembina's BC transportation hub and the Western system. The pipelines forming the gathering system collectively transported an average of 32,300 barrels per day in 2006, essentially all of the crude oil and condensate produced in BC during that period.

Pembina's conventional pipelines transported approximately 450,000 barrels per day of crude oil and natural gas liquids, roughly one-half of the light crude oil produced in western Canada.

OIL SANDS INFRASTRUCTURE

Alberta Oil Sands Pipeline ("AOSPL")

Pembina's AOSPL system provides dedicated transportation service to the Syncrude project, with a contracted capacity of 389,000 barrels per day. The long-term, contract based returns generated by this asset are independent of actual pipeline throughput and capacity utilization.

Horizon Pipeline

Construction on the \$350 million pipeline expansion providing exclusive transportation to Canadian Natural Resources Limited's Horizon Oil Sands Project began in late 2006. This expansion will increase capacity by 250,000 barrels per day of synthetic crude oil and is scheduled for completion in mid-2008. The Horizon Pipeline will be operated under the terms of a 25-year extendible transportation agreement.

Cheecham Lateral

The Cheecham Lateral is a 56-kilometre pipeline that transports product from an outlet point on Pembina's AOSPL system to a terminalling facility near Cheecham, Alberta. This pipeline, fully contracted for a 25-year term, has the capacity to transport 136,000 barrels per day of synthetic crude oil. The Cheecham Lateral commenced generating revenue February 1, 2007.

Following the completion of the Horizon Pipeline, Pembina will have the capacity to transport approximately 640,000 barrels per day of synthetic crude oil from the oil sands region.

MIDSTREAM BUSINESS

Ethylene Storage

The Fort Saskatchewan Ethylene Storage Facility is the sole large-scale underground ethylene storage facility in Alberta. Pembina's 50 percent non-operated interest in this asset provides contracted, long-term returns and diversifies Pembina's business into the petrochemical sector without commodity price exposure.

Terminalling, Storage and Hub Services

Pembina has developed terminalling, storage and hub services on the Cremona, Swan Hills and Drayton Valley (Pembina system) pipeline systems. Plans are underway to expand the midstream offering which will eventually include services upstream of Pembina's existing pipelines, vertically integrating our midstream and conventional pipeline operations.

Initiatives undertaken by the midstream business unit exploit the inherent value of Pembina's extensive and high-quality conventional pipeline asset base.

OUR BUSINESS OBJECTIVE Pembina's principal objective is to provide a stable stream of distributions to Unitholders that are sustainable over the long-term, while pursuing opportunities for enhancement through accretive growth. Pembina is committed to continuing the strategic development and diversification of its asset base.

Conventional Pipelines

Pembina endeavors to maintain the operating margin contribution of its conventional pipeline assets while pursuing opportunities for throughput and revenue enhancement. Margins are maintained through the use of toll management, strict adherence to operating cost control and by asset rationalization. By offering cost-effective, competitively positioned and reliable transportation services to our customers, Pembina undertakes to attract new business to its conventional pipeline systems.

Oil Sands Infrastructure

Pembina intends to leverage its uniquely positioned infrastructure and operating knowledge in the oil sands sector to pursue future opportunities in this key development area. Pembina's existing oil sands infrastructure, and those currently under development, offer fully contracted and long-term returns which provide a secure stream of stable cash flow to the Fund. Further expansion of Pembina's business interests in this area is a priority.

Midstream Business

The ongoing expansion of Pembina's midstream business is a priority. Pembina intends to initiate new terminalling, storage and hub services over segments of its conventional pipeline systems and, anticipates that this vertical integration strategy will produce significant benefits to both pipeline customers and Unitholders of the Fund.

Pembina at a Glance



2006 WAS A RECORD YEAR FOR REVENUE AND OPERATING INCOME

2006 Revenue (\$ millions)

223.0 Conventional

62.1 Oil Sands

50.7 Midstream

335.8 Total



2006 Net Operating Income⁽¹⁾ (\$ millions)

133.1 Conventional

37.3 Oil Sands

46.4 Midstream

216.8 Total



2006 Assets⁽²⁾ (\$ millions)

968.4 Conventional

411.3 Oil Sands

249.7 Midstream

1,629.4 Total



⁽¹⁾ Refer to "Non-GAAP Measures" on page 36.

⁽²⁾ At December 31, 2006.

Letter to Fellow Unitholders

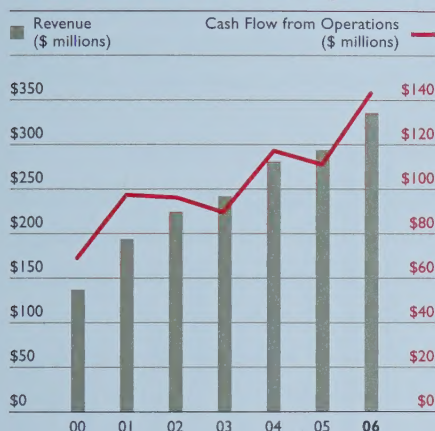


Lorne B. Gordon
Chairman

Robert B. Michaleski
President and Chief Executive Officer

2006 WAS A REWARDING YEAR FOR PEMBINA PIPELINE INCOME FUND. It was a record breaking year by many operating and financial measures. Pembina achieved growth in all three of its business segments during the year that supported a 25 percent increase in distributed cash.

Revenue and Cash Flow from Operations



We are pleased to report a year of record results and the ongoing profitable expansion and diversification of our premium energy infrastructure business. Specifically, Pembina achieved solid operational results from its conventional pipelines, significant growth in the oil sands division and the successful development of its midstream business.

Since its launch as a publicly traded income fund in 1997, the total enterprise value of the Fund has increased four-fold to \$2.6 billion at the end of 2006. During the year, we generated \$336 million in revenue and \$144 million in cash flow from operations, representing year-over-year increases of 15.6 percent and 28.0 percent respectively. 2006 distributed cash totaling \$142 million, or \$1.165 per Trust Unit, is 25 percent higher than last year. These results strongly endorse our proven business strategy, as we consistently deliver profitable, risk-managed growth to our Unitholders.

Our assets are strategically located in the heart of western Canada's crude oil and natural gas producing regions. We believe that our premium asset base, together with our solid balance sheet and considerable operational expertise, will enable us to continue to profitably exploit the development potential across our business.

Pembina's success hinges on our ability to deliver on our commitments. We are committed to delivering stable and growing cash distributions to our Unitholders. We are committed to providing reliable, cost effective transportation service to our customers. We are committed to the strategic and profitable growth of our business. Finally, we are committed to exemplary corporate citizenship; espousing socially and environmentally responsible practices in all our operations and, ensuring high standards of corporate governance.

We delivered on all of these commitments in 2006.

Our commitment to stability and growth in cash distributions to Unitholders

Over its near-ten year history as an income fund, Pembina has developed a well-established record of consistently delivering stable, and growing, cash distributions to Unitholders. In 2006, we achieved our distribution objective, as we have in every year since our initial public offering in 1997. The Fund has distributed a total of \$830 million, or \$9.42 per Trust Unit, on a cumulative basis to the end of 2006. Further, a series of three distribution rate increases, announced over the twelve months ended November 2006, boosted Pembina's annual distribution rate to \$1.32 per Trust Unit effective January 2007. This represents a cumulative 26 percent increase over the \$1.05 per Trust Unit paid for the five years ending in 2005.

This record of achievement is supported by the ongoing expansion and solid operational performance across Pembina's energy infrastructure business.

Our commitment to the provision of reliable, cost effective transportation to customers

Reliability is the primary focus of Pembina's operations and considerable resources are directed toward ensuring the safe, continuous operation of our pipeline systems. Over one-third of our annual operating budget is expended on the extensive preventative maintenance and pipeline integrity programs we have developed to achieve this critical objective. Pembina employs state of the art technology in our in-line inspection, remote monitoring and control and pipeline integrity programs to enhance our performance in this area.

Our success in attracting and developing new business and in optimizing the revenue generating capability of our assets, enables Pembina to offer competitive pipeline transportation to its customers. We continually seek ways to enhance the value of our service offering, developing new facilities and transportation alternatives that meet the evolving needs of our diverse customer base.

Our commitment to the strategic and profitable growth of our business

The ongoing profitable expansion of our premium hydrocarbon liquids services business in western Canada is central to meeting our objectives and commitments. Our strategically located conventional and oil sands assets position us favorably to capture opportunities for future growth in a dynamic energy industry environment. Further, we believe that the ongoing development of midstream services across segments of our conventional pipelines is key to unlocking the full value of these high-quality assets.

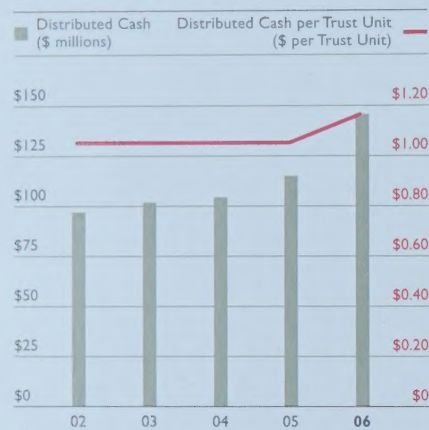
The medium and longer term potential associated with energy industry development of multi-billion dollar oil sands extraction facilities and the related demand for alternative sources of diluent, and enhanced recovery from mature oil producing fields utilizing carbon dioxide (CO₂) flooding, provides an exciting range of future possibilities. Pembina will proactively pursue opportunities to participate in these industry developments as they progress.

Our commitment to exemplary corporate citizenship

Maintaining and enhancing Pembina's long-standing reputation as a good corporate citizen is of paramount importance. The Board of Directors, management and all employees at Pembina are committed to transparency and accountability at all levels of the organization. We are proud of our strong emphasis on sound corporate governance practices and continually seek ways to improve these practices and procedures.

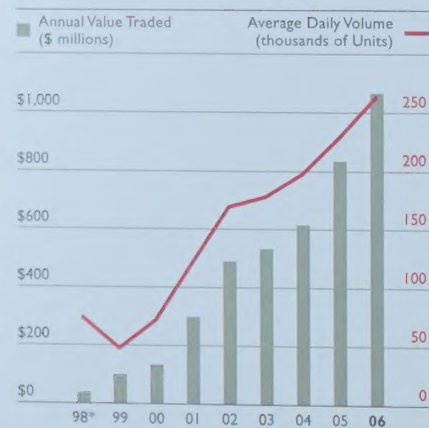
We are committed to conducting our business in a socially and environmentally responsible manner. We have developed comprehensive safety management systems designed to protect our employees, the general public and the environment and we strive for continuous improvement in this area. Our record of achievement endorses the effectiveness of our systems and the operating culture that it reflects.

Distributed Cash⁽¹⁾



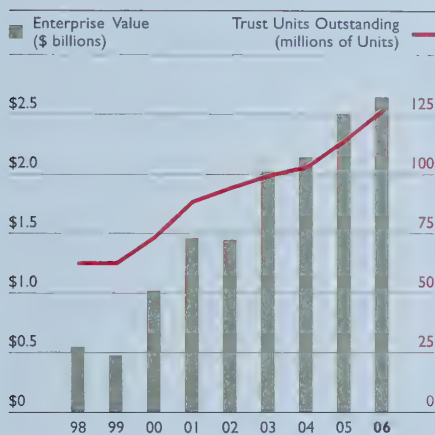
⁽¹⁾ Refer to "Non-GAAP Measures" on page 36.

Liquid Investment



* PIFUN commenced trading as a fully paid Trust Unit on October 23, 1998.

Enterprise Value and Trust Units Outstanding



Pembina is committed to the cultivation of ongoing relationships with stakeholders and to upholding its reputation of equitable dealings with local residents, municipalities and Aboriginal communities who are affected by our operations. We believe that our policy of open and honest dialogue with all stakeholders is key to maintaining our corporate reputation and to attaining our business objectives.

The Federal government recently announced its intention to change the tax treatment of income trusts in the future. While the proposed changes, if enacted, will be unfavorable to the Fund, we are confident that they will not impede or impair our core business plan. Management is considering various alternatives to ensure that we continue to deliver maximum value to our Unitholders. We are confident in our continuing success, whatever structural form our business may take in the future.

We would like to take this opportunity to thank Donald Krogseth for his contributions to Pembina's Board of Directors. Mr. Krogseth served as a director for almost five years. We thank him for his stewardship and advice and will miss his leadership.

We are pleased to welcome Allan Edgeworth to our team of directors. Mr. Edgeworth brings a great deal of knowledge to the Board and we look forward to his strategic vision based on a wealth of pipeline experience.

We would also like to congratulate Glenys Hermanutz on her appointment to Vice President, Corporate Affairs. Glenys has 21 years of service with Pembina. She has been a significant contributor to Pembina's growth and is a key member of our management team.

Pembina owes its success to our many employees who work diligently to ensure that we meet our commitments. We would like to thank all employees for their dedication, focus, energy and vision.

Lastly, we would like to thank our Unitholders for their confidence and support. We will do our utmost to continue to deserve your trust. We look forward to continuing to deliver on our commitments in 2007.

Lorne B. Gordon
Chairman
Pembina Pipeline Corporation

March 8, 2007

Robert B. Michaleski
President and Chief Executive Officer
Pembina Pipeline Corporation

BUSINESS OVERVIEW Over its long operating history, Pembina has secured its position as a contract service provider in western Canada's oil and gas industry. Our extensive network of pipelines and complementary energy infrastructure assets are strategically located to serve both conventional oil and natural gas producing regions and the rapidly expanding oil sands.

Pembina's conventional pipelines transported an average of 448,500 barrels per day of conventional crude and NGLs in 2006. These pipelines deliver reliable, cost effective transportation services to a diverse group of approximately 65 customers. Pembina's oil sands infrastructure provides 389,000 barrels per day of contracted pipeline transportation capacity and Pembina expects capacity contracted to oil sands customers to increase to approximately 640,000 barrels per day by mid-2008.

Pembina maintains a diversified portfolio of assets which is structured to provide a balance of fully-contracted and flexible, toll based revenue. Pembina employs this strategy to promote the future stability and sustainability of our operations while preserving potential upside and facilitating growth.

Pipeline integrity is imperative to our operations and Pembina is committed to investing in state of the art technology to ensure the safe and dependable operation of our pipeline systems. In 2007, Pembina expects to utilize guided wave technology designed to detect corrosion on pipeline segments where the use of conventional corrosion inspection tools is not possible. Our extensive pipeline inspection program, which employs crack detection and corrosion technology, combined with a related comprehensive repair program, contributes to the safe, reliable and continuous operation of our pipeline systems.

Pembina's multi-year Supervisory Control and Data Acquisition ("SCADA") system initiative progressed in 2006. The objective of this undertaking is the systems standardization across Pembina's pipeline network. The final two pipeline systems to be converted to the new SCADA system will be completed during 2007. This new system will streamline SCADA operations and help ensure the consistent operation of all of Pembina's operating systems.

2006 Operating Highlights

	Conventional Pipelines		Oil Sands Infrastructure ⁽³⁾		Midstream Business		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Average throughput (mbbls/day)	448.5	435.4	389.0	389.0			837.5	824.4
Revenue (\$ millions)	\$ 223.0	\$ 204.3	\$ 62.1	\$ 55.5	\$ 50.7	\$ 30.7	\$ 335.8	\$ 290.5
Operating expense (\$ millions)	89.9	80.4	24.8	18.5	4.3	3.8	119.0	102.7
Net operating income (\$ millions) ⁽¹⁾	\$ 133.1	\$ 123.9	\$ 37.3	\$ 37.0	\$ 46.4	\$ 26.9	\$ 216.8	\$ 187.8
Average revenue (\$/bbl) ⁽²⁾	\$ 1.27	\$ 1.20	\$ 0.65	\$ 0.69			\$ 1.05	\$ 1.04

⁽¹⁾ Refer to "Non-GAAP Measures" on page 36.

⁽²⁾ Midstream revenue is excluded in total average revenue calculation.

Revenue is contract-based and independent of utilization rates, therefore volumes reported are contracted capacity.



Pembina's extensive pipeline operations are located at the center of activity in the oil and natural gas industry in western Canada.



CONVENTIONAL PIPELINES

Positive energy industry fundamentals benefited Pembina's conventional pipeline business during the year. Active exploration in Pembina's service areas resulted in customer requests for new pipeline connections and facility expansions and upgrades. Incremental volumes from these new developments reversed the historical trend of declining throughputs on the conventional systems and contributed to Pembina's stronger year-over-year aggregate operating performance.

Alberta

Pembina's seven operated and two non-operated Alberta pipeline systems transported an average of 425,800 barrels per day of crude oil and natural gas liquids. For the second consecutive year, increased throughputs on the Alberta systems have more than offset natural production declines.

Industry exploitation of the Nisku formation in south-central Alberta continued in 2006. The three Nisku production batteries connected to the Drayton Valley system contributed an average of 7,400 barrels per day in 2006. Pembina anticipates that receipts from these batteries will increase to an average of 15,000 barrels per day in 2007, as producers' operational issues in this region are resolved.

The reversal of the Calven pipeline occurred in early 2006. Volumes received from this new source met Pembina's expectations by mid-year, and contributed to increased volumes on our Peace system. Pembina continues to develop a market for the incremental 25,000 barrels per day of carrying capacity that was created by the 2005 Peace and Northern systems interconnection.

During 2006, Pembina developed new facilities to segregate high sulphur content crude oil from light sweet crude oil on the Drayton Valley system. The addition of \$32 million in storage facilities and new pipeline will allow Pembina to preserve a high quality crude oil stream while providing enhanced services to our customers. Pembina anticipates that these new facilities will become operational in 2007. Similar facilities have been approved on the Peace systems for 2007.

Pembina continues to monitor industry progress in the development of miscible CO₂ flooding, a method of enhanced oil recovery. Pembina's Swan Hills, Redwater and Drayton Valley service areas have been identified by industry as amenable to the application of this technology. Pembina has the capacity to transport incremental production arising from the commercial development of CO₂ flooding in these areas at very little additional cost. In addition, Pembina may have the opportunity to participate in the construction of CO₂ pipelines, utilizing its existing infrastructure and rights-of-way.

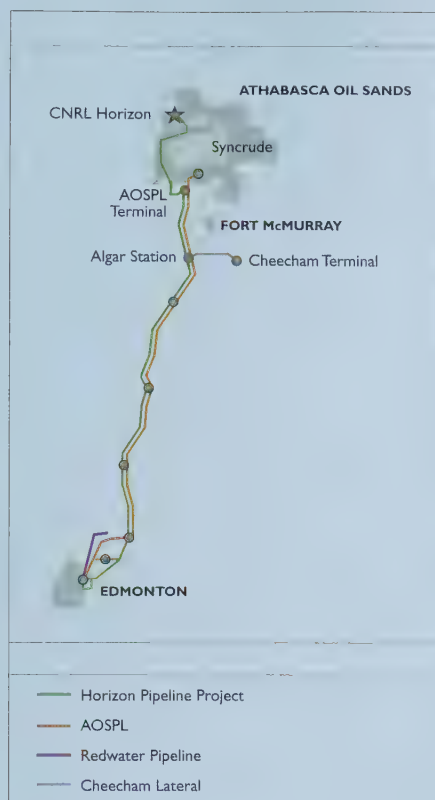
British Columbia ("BC")

Pembina's BC pipeline systems transport essentially all of the crude oil and condensate produced in the province. The BC pipelines consist of: the provincially regulated BC gathering system that deliver crude oil and condensate to the Taylor transportation hub, and; the Western system that delivers product to a refinery in Prince George and further downstream to Kamloops under a negotiated tolling arrangement.

During 2006, Pembina's BC gathering pipelines delivered an average of 32,300 barrels per day to the Taylor transportation hub and generated 64 percent of our BC revenue for the year. Of that, 22,700 barrels per day were routed south on the Western system with the balance transported eastward on Pembina's Alberta systems.

Pembina invested \$13 million in the BC systems over the course of 2006 and continues to work on major upgrades to its BC facilities. Pembina's largest capital undertaking in this area during the year was the Pine River Crossing project on the Western system. The crossing was at risk of becoming exposed due to the record rainfalls of 2005 and Pembina spent approximately \$4.0 million to complete this project.

As a part of Pembina's ongoing pipeline integrity program, the southern half of the Western system was inspected in 2006. Inspection on the northern half of the system was completed in 2005.



OIL SANDS INFRASTRUCTURE

Alberta Oil Sands Pipeline ("AOSPL")

Pembina's AOSPL system provides synthetic crude oil transportation service to Syncrude, the world's largest crude oil producer from oil sands. The AOSPL system operates under the terms of a long-term contract that provides for the flow through of operating costs and is structured to avoid the impact of fluctuations in commodity price or pipeline utilization. AOSPL revenue is determined by returns on invested capital related to the contracted capacity of the pipeline and is not impacted by actual pipeline throughput levels.

Following a \$164 million expansion completed in 2004, the contracted capacity of AOSPL is 389,000 barrels per day. Average throughput on AOSPL in 2006 of 263,500 barrels per day of synthetic crude oil was up from 218,700 barrels per day in 2005. AOSPL contributed 18 percent of Pembina's total revenue in 2006.

Horizon Pipeline

In 2006, Pembina executed definitive agreements with Canadian Natural Resources Limited ("Canadian Natural") for the exclusive transportation of up to 250,000 barrels per day of synthetic crude oil from Canadian Natural's Horizon Oil Sands Project ("Horizon Project"), located 70 kilometres north of Fort McMurray, Alberta, to Edmonton, Alberta. To accommodate these volumes, Pembina is expanding its AOSPL system by filling in the pipeline loops that were constructed for the Syncrude expansion in 2004-2005. Pembina is working collaboratively with its customer in the development of this project and, to mitigate risk, has secured contracts for all of the major elements required to complete the three phases of construction. The first phase of construction began in November 2006, and Pembina expects the second and final phases to occur over the summer of 2007 and winters of 2007 and 2008.

The total cost of this construction is estimated at \$350 million and we anticipate completion in mid-2008. Upon completion of construction, Pembina will have two separate dedicated pipelines originating in the oil sands, the Horizon Pipeline and the AOSPL Pipeline, with a total transportation capacity of approximately 640,000 barrels per day of synthetic crude oil. The Horizon Pipeline will be operated under the terms of a 25-year extendible transportation agreement, which provides for a fixed return on capital invested and full recovery of operating costs. Pembina will have the exclusive rights to construct any further pipeline expansions to the Horizon Project. This expansion is an important step forward in Pembina's overall strategy of establishing its presence in the oil sands infrastructure sector.

Cheecham Lateral

The Cheecham Lateral, a 56-kilometre pipeline originating at a newly constructed outlet on our AOSPL system, is capable of delivering up to 136,000 barrels per day of synthetic crude oil to a terminalling facility near Cheecham, Alberta. This new service, completed at a total cost of \$42 million, generates fixed returns under an extendible 25-year transportation agreement which provides for full flow-through of operating expenses. Revenue contribution from this asset commenced February 1, 2007.

Prospective Projects

Pembina is vigorously pursuing opportunities to further expand its operating footprint in the oil sands region and, to that end, is actively engaged in preliminary discussions with a number of parties.

We are exploring the potential to provide pipeline transportation service to several of the multiple oil sands projects proposed by industry for development in the 2010 to 2015 timeframe. Pembina expects to participate in what is anticipated to be a highly competitive process for the provision of transportation service to these projects as they are progressed by their sponsors. We believe that our operational and recent construction expertise in the area will enhance our likelihood of success in capturing some of this new business.

As new oil sands extraction facilities currently under development by the energy industry progress toward operation, industry forecasts that the demand for condensate utilized to facilitate the transportation of heavy oil will increase measurably. In response to this anticipated demand, Pembina is in the process of developing a condensate delivery system designed to transport 100,000 barrels per day of imported condensate from the west coast of British Columbia to Edmonton, Alberta. The project, estimated at a total cost of approximately \$1.2 billion, entails the possible construction of a marine terminal at Kitimat, BC and a 465-kilometre pipeline from Kitimat, BC to connect to Pembina's Western System near Summit Lake, BC. The capacity of Pembina's Alberta pipelines would be expanded to accommodate the incremental throughput. Pembina has progressed discussions with a number of stakeholders including customers, governments, local communities and First Nations with regard to this project.

MIDSTREAM BUSINESS

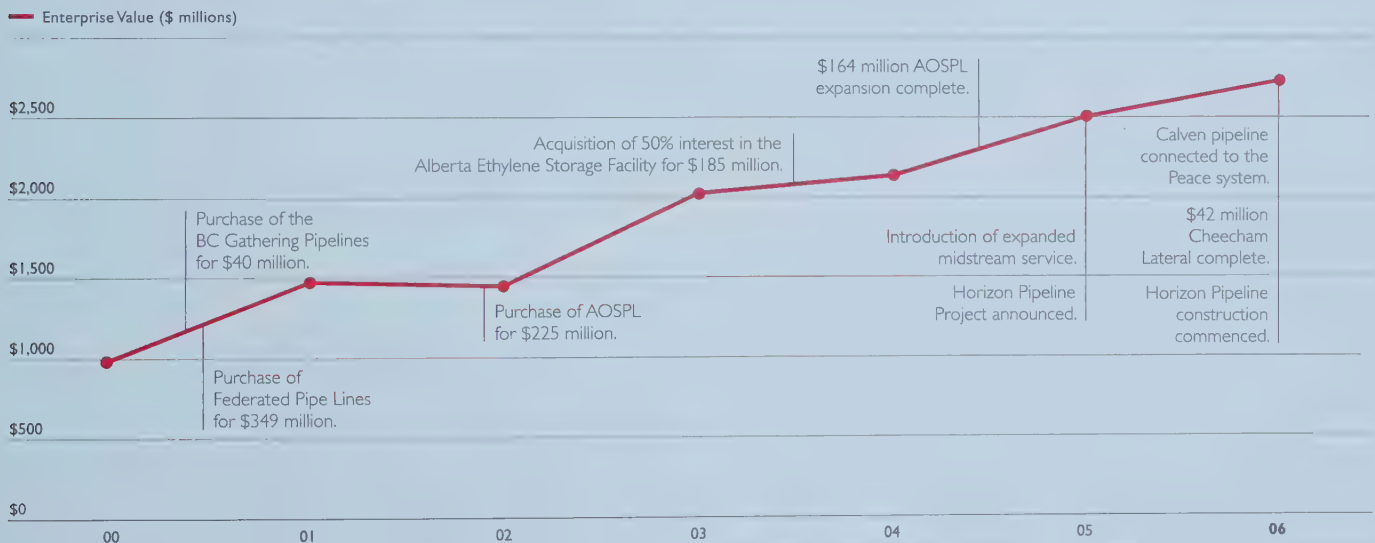
Pembina's midstream business exploits the inherent value of our extensive and high-quality conventional pipeline asset base. Pembina expects the trend toward vertically integrating services for producers to continue in 2007 and foresees the establishment of services upstream and downstream of our existing pipelines in coming years. This represents a natural extension of our conventional business. By attracting incremental throughput to Pembina's truck terminals, storage facilities and pipelines, we may realize greater revenues and possibly extend the useful life of our conventional systems. These full-service offerings diversify Pembina's business, reduces its risk profile, and improves its ability to compete.

The anchor for Pembina's midstream business is its 50 percent non-operated interest in the Fort Saskatchewan Ethylene Storage Facility. This fully contracted asset, which is the only large-scale underground salt cavern storage facility in Alberta, provides Pembina with fixed returns over a renewable 20-year term.

The net operating income contribution of the consolidated midstream business was \$46.4 million in 2006, up 72 percent, or \$20 million, year-over-year. This unprecedented growth was supported by the success of our midstream business in 2006, and in 2007, we expect further increases in cash flow from this segment as new services are developed and implemented.

A History of Pembina's Strategic Growth

Pembina continues to execute its proven business strategy through the exploitation, expansion and acquisition of quality energy infrastructure assets.





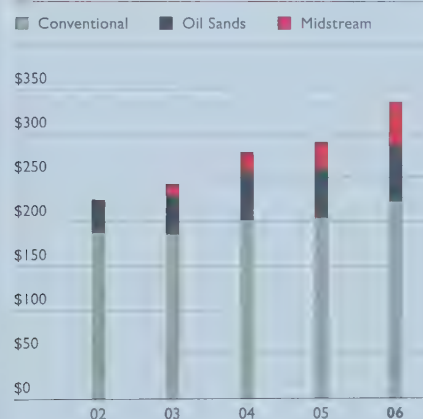


Seizing Opportunities

Pembina's extensive network of conventional pipeline assets, significant footprint in the oil sands region and rapidly expanding midstream services position us favorably to take advantage of the many vertical integration opportunities that lie ahead.

Pembina's ability to leverage its existing asset base and expertise in synergies within its three business segments unlocks value added opportunities for Pembina's Unitholders.

Revenue by Business Segments (\$ millions)







Reliable and Sustainable Operations

In 2006:

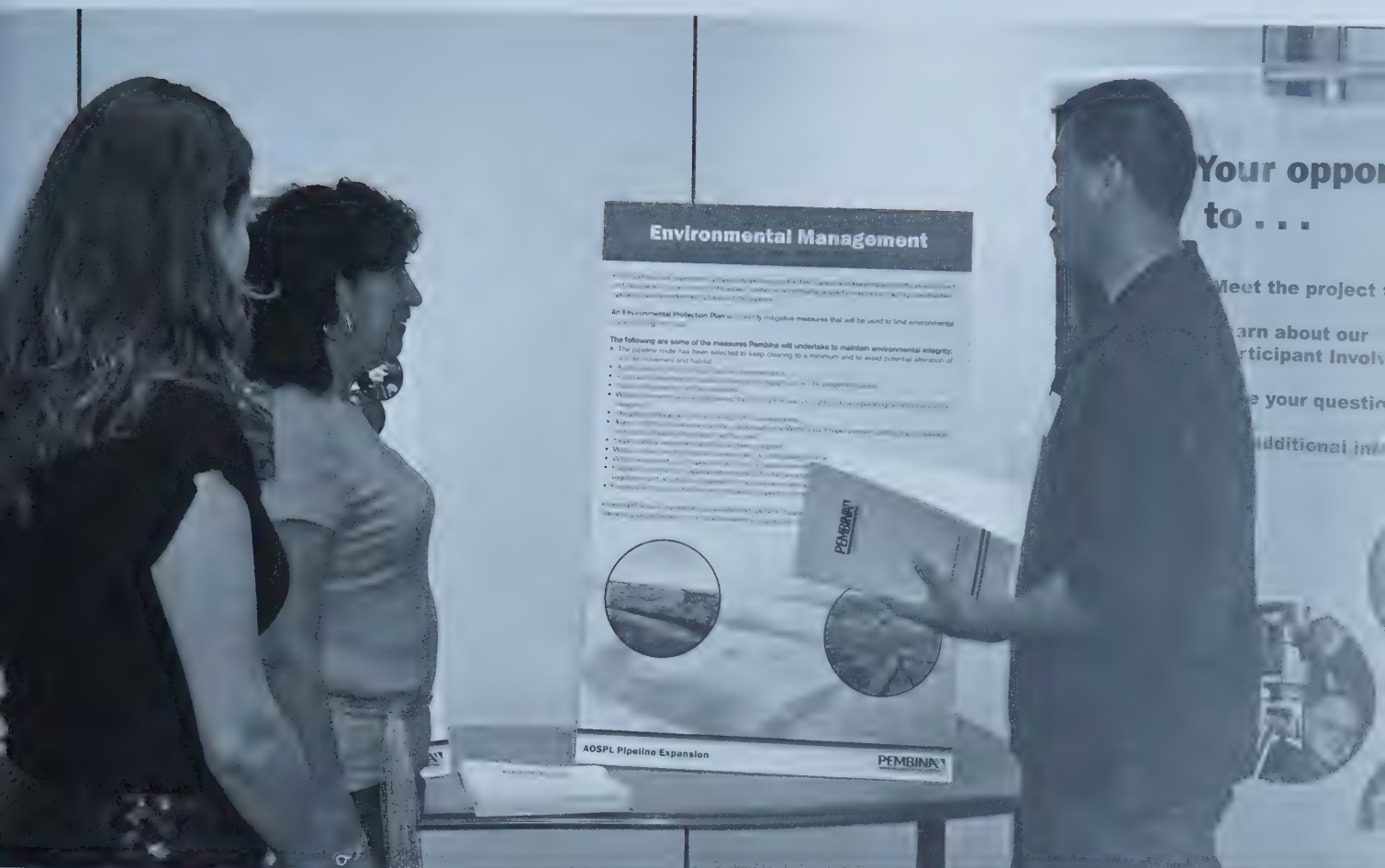
- Over 50 pipeline segments internally inspected for corrosion
- Excellent safety record
- Positive stakeholder relationships
- Limited environmental footprint

We believe that sustainability, our capacity to obtain stakeholder support for our business initiatives and, our ability to attract and retain staff are prerequisites for our financial, safety and environmental management performance.

We steadily work towards our goal of continuous compliance and the universal goal of no accidents, no harm, and an absolute minimization of our impact on the environment.

Left: Minimizing Pembina's environmental footprint in northeastern BC.





Building trust and credibility in the communities in which we work is of utmost importance to Pembina. We are determined to cultivate positive relationships with stakeholders and to uphold our reputation as an honest and ethical organization.

Principled Development

The following principles guide our interactions with stakeholders:

- Accessible
- Responsive
- Inclusive
- Transparent
- Respectful
- Accountable

At Pembina we strive to ensure that the business maintains the human capacity and capability to support our business plan and, to foster a culture which reflects the organization's values of integrity, stability, purposefulness, responsibility, respectfulness, and accountability.

HEALTH, SAFETY, ENVIRONMENT AND PIPELINE INTEGRITY Pembina is committed to safe, sustainable, and efficient operations in all our business segments. We place a high priority on protecting the health and safety of our workers, safeguarding the public, and minimizing the environmental impact of our operations.

At Pembina, we believe a positive safety culture, continued excellence in environmental protection and a strong overall loss management program is integral to our ongoing business success.

Pembina's management is committed to creating a safety/loss management culture that goes beyond broad policy statements. All employees at Pembina are trained and expected to conduct their business activities with a focus on safety, environmental protection, and concern for our neighbors and stakeholders.

To guide these sustainable business practices, Pembina has developed a series of loss management programs, plans, processes, and systems. These programs work together to help ensure a consistent, systematic, and transparent approach to pipeline construction, maintenance and operations, which facilitates continued learning and improvement.

We believe there is a link between positive loss management culture and strong business performance. In a year when Pembina was able to significantly increase distributions, we also recorded a decrease of approximately 20 percent in overall incidents relative to our three year average. We believe business sustainability, our capacity to obtain stakeholder support for expanding business initiatives, and our ability to attract and retain staff are prerequisites for our financial and loss management performance.

Pembina conducts its operations under the regulatory oversight of the Alberta Energy and Utilities Board ("EUB"), the BC Oil and Gas Commission and the National Energy Board. We steadily work towards our goal of continuous compliance and the universal goal of no accidents, no harm, and an absolute minimization of our impact on the environment.

Worker Health and Safety

To help ensure the safety of our employees and those working on our behalf, Pembina has developed and implemented a comprehensive safety management system. This system is continuously reviewed, updated and improved.

In 2006, Pembina continued to reap the rewards of our strong commitment to safety with only one minor lost-time injury and a commendable injury occurrence rate of only 0.82 injuries per 200,000 hours worked.

Through our annual participation in a rigorous industry standard third-party Basic Safety Program audit, Pembina received a Certificate of Recognition in the Partnership Program with Alberta Human Resources and the Alberta Workers Compensation Board. We have maintained this distinction since inception of the program in 2000.

Pembina is a member of the Canadian Association of Petroleum Producers and, in 2006, maintained our standing as active gold-level participants in its Environment, Health and Safety Stewardship Program.

Pipeline Integrity Management

Integrity Management continues to form the cornerstone of Pembina's loss management program with comprehensive programs, processes, and systems dedicated to the long-term safety and reliability of our pipeline infrastructure.

Pembina manages pipeline integrity through a comprehensive Integrity Management Program founded on quality management principles, technical programs, and system-specific analysis. The program incorporates industry best practices and is designed to meet regulatory requirements including those introduced by the EUB in 2006.

In 2006, Pembina continued broad implementation of our well-established integrity programs and expanded the system-specific analysis across our pipeline network. Pembina had the opportunity to showcase its process and programs to a wide audience at the International Pipeline Conference held in Calgary, Alberta, and at other industry conferences conducted throughout the year.

Pembina continued its aggressive inspection program in 2006 using sophisticated in-line inspection technology to identify anomalies that may exist in our pipelines.

Where these tools identify features that do not meet Pembina's high safety standards, the features are excavated and repaired. This year, Pembina inspected over 50 line segments for corrosion and continued our four year program inspecting two additional major line segments using industry-leading ultrasonic crack detection technology.

To further protect the integrity of our pipelines against damage by third-party excavators or construction activity, Pembina maintains routine aerial patrols and our long-standing membership in the Alberta and BC one-call systems. For 2006, we also continued to enhance our comprehensive public awareness program and developed an improved geotechnical database designed to help minimize integrity hazards associated with ground movement.

Through timely execution and continuous improvement of our Integrity Management Program, Pembina is able to maintain the long-term safety and fitness-for-service of our pipeline systems regardless of type, age, location, coating type or operating history.

Environmental Protection and Stewardship

Pembina has a longstanding commitment to best practices in environmental management. Our commitment to protection of the environment is executed through an environment management system based on the principles of ISO 14000 and designed to meet or exceed applicable regulatory requirements.

In 2006, we continued our program to reduce the long-term environmental liability associated with prior incidents. This year Pembina completed remediation activities on four historic leak sites across the system and received official regulatory closure for the release that occurred on the Western system near Chetwynd BC in 2000.

Part of Pembina's commitment to continuous improvement is the annual evaluation of environmental compliance and performance through third-party audit of our operating districts. During 2006, Pembina's Deep Basin District, including our BC operations, was audited and no regulatory compliance or material deficiencies were identified.

An additional metric in Pembina's self-evaluation of environmental performance is our spill ratio per volume of throughput. As a testament to our increased environmental focus, strong pipeline integrity programs, and decreased overall impact to the environment, Pembina's spill ratio has been steadily declining since 2000.

For our recently approved Horizon Pipeline, Pembina worked closely with First Nations, trappers, landowners, and regulators to develop environmental protection plans and construction strategies that ensure maximum environmental protection while maintaining project continuity. Pembina is currently working with the Department of Fisheries and Oceans to develop innovative solutions to ensure our project results in no net loss to important fisheries habitat.

Emergency Preparedness and Public Safety

While we expend substantial effort and capital on the safe operations of our systems, pipeline failures can still occur. To address this risk, and to ensure maximum possible public safety, Pembina's loss management program includes a comprehensive emergency preparedness element.

Central to our emergency preparedness program is the continuous improvement and upgrade of our Emergency Response Plans ("ERPs"). Expanding on the extensive landowner, resident, and stakeholder database developed in 2005, these regulatory-approved ERPs were upgraded in 2006 to include new maps for High Vapor Pressure ("HVP") pipelines and new control point maps for select liquids pipelines.

In addition, for 2006, all Pembina field staff received Incident Command System training and now have enhanced capacity to manage emergencies using this standardized incident management system. The effectiveness of Pembina's response planning is tested regularly through tabletop emergency exercises conducted annually in each District, and, in 2006, with a full-scale HVP exercise in Drayton Valley and a river spill response exercise on the North Saskatchewan River. Pembina is also an active member of the Western Canadian Spill Services Co-op, has full access to co-op response equipment, and participates in regular emergency response exercises with other members.

Through comprehensive emergency preparedness programs and training, Pembina is prepared to respond rapidly to emergency situations, minimize environmental and safety impacts, and reduce service interruptions across our pipeline systems. We also maintain a comprehensive insurance package to further mitigate the risks associated with pipeline operations.

ABORIGINAL & COMMUNITY RELATIONS AND HUMAN RESOURCES Good intentions are not enough; ultimately we are measured by our actions. Through our community relations and human resources practices and programs, Pembina endeavours to communicate openly and honestly to cultivate of trust. We hold ourselves accountable for showing respect for individual and cultural differences.

Aboriginal & Community Relations

Pembina is committed to establishing and maintaining positive relationships with the communities in which it operates. We take our responsibility to keep stakeholders and Aboriginal communities informed of our operational activities very seriously and are committed to engaging them in open, transparent and meaningful dialogue. Moreover, Pembina believes in mutually beneficial solutions and is firmly committed to achieving these.

In 2006, Pembina held a series of 13 open houses throughout Alberta and BC to discuss the proposed condensate project. At these open houses, our project team made interactive presentations to local residents, agencies, municipalities and Aboriginal communities and encouraged feedback and information-sharing amongst all participants. Pembina also distributed a wide variety of information and provided contact numbers to all interested stakeholders to ensure that they have the knowledge and resources to stay informed and engage in ongoing dialogue.

Pembina adopted a formal Aboriginal Relations Policy in 2006. This policy commits to honest and ongoing relationships with Aboriginal communities, pledges to collaborate with Aboriginal communities to address mutual interests, and encourages increased Aboriginal involvement through training, employment and business opportunities.

Building trust and credibility in the communities in which we work is of utmost importance to Pembina. We are determined to cultivate positive relationships with stakeholders and Aboriginal communities and to live up to our reputation as an honest and ethical organization. Pembina is continuously looking at ways to improve its community relations and will continue to develop policies and procedures to identify and address the environmental, social and economic impacts of our operations.

Pembina representatives sign a protocol agreement for the proposed condensate project with the Kitselas First Nations group.

Left to right, standing: Chris Knight, Fred McKenzie, Neil Sterritt, Fred Kuipers. Left to right, sitting: Chief Glenn Bennett, Wilfred McKenzie, D. James Watkinson.



Pembina takes its corporate citizenship commitment seriously and demonstrates this through the company's community giving initiatives. We are actively engaged in supporting a wide variety of organizations delivering community and social welfare, health, youth and education, and arts and culture services and programs in the communities where Pembina's employees live and work. Pembina's leadership promotes a corporate culture of giving and volunteerism through their visible personal support of a number of charitable organizations and also through their endorsement of Pembina's corporate match for funds donated or raised by employees.

Human Resources

The sustained momentum of Pembina's key business segments, combined with Alberta's fiercely competitive labour markets, created unprecedented employment recruitment and retention challenges during 2006. Pembina continued to boast a strong employee retention record in the face of robust employment opportunities and a shrinking labour pool. Although Pembina's voluntary turnover rate increased to 8 percent in 2006, up from 6 percent in 2005, the organization's reputation as a fair employer served as a buffer against attrition rates of 12-13 percent experienced by other companies with which we compete for skilled labour.

In 2006, Pembina's employee count averaged 331. An average field workforce of 238 employees operated Pembina's conventional pipeline and oil sands infrastructure assets. The head office workforce of an average 93 employees provided engineering, corporate and midstream services.

Pembina is determined to attract, develop and retain a skilled workforce with the creativity, competency and commitment to attain our objectives. The role of human resources is to link human needs to business needs in a way that benefits the individual and the organization. At Pembina, we strive to ensure we have the human capacity and capability to support our business plan and to foster a culture that reflects the organization's values of integrity, stability, purposefulness, responsibility, respectfulness and accountability. We do this through effective recruitment, selection, retention and performance management and by providing appropriate work structure and focus, policies and standards, opportunities for personal and professional development and competitive compensation, benefits and rewards practices.

Pembina's employee base mirrors the growth and diversity of our business segments. Employees range in age from 19 to 66, with an average age of about 45 and an average length of service of 15 years. Succession planning is an important component of Pembina's business continuity and human resources strategy. We have great confidence in the knowledge and abilities of our experienced personnel; this is leveraged through coaching and mentoring relationships with newer employees who bring recent education, knowledge, ideas and energy to Pembina.

We are proud of Pembina's workforce and the results achieved through their collective efforts, creativity and integrity.

CORPORATE GOVERNANCE PRACTICES The Board of Directors of Pembina Pipeline Corporation, a wholly owned subsidiary of Pembina Pipeline Income Fund, recognizes that good corporate governance is vital to maintaining the trust and confidence of the Unitholders of the Fund. The Board is therefore committed to achieving best practices in corporate governance. Pembina's corporate governance complies with all applicable Canadian securities law.

The Board, which is responsible for overseeing the governance of the Fund, is currently composed of seven directors. Management is, however, looking at expanding the number of directors on the Board as Pembina's business continues to grow and diversify. All directors are elected by Unitholders at the annual meeting of the Fund. Six of the current directors, including the Chairman of the Board, are independent within the meaning prescribed by Canadian securities laws. Mr. Michaleski, the President and Chief Executive Officer of Pembina, is the only director who is not independent. Recognizing the importance of having a majority of independent directors, the Board regularly reviews the relationship between each director and Pembina. If, at any time, a director's interests conflict with those of Pembina, the director must absent himself from the portion of the meeting discussing the matter in which there is a conflict and is prohibited from voting on it. Also, to ensure that the Board functions independently of management, at each Board meeting, the independent directors have developed a practice of meeting separately from management.

Through special and regularly scheduled meetings, the Board oversees the conduct of the business of the Fund and supervises the activities and operations of management, which is responsible for the day-to-day conduct of the Fund's

business. The Board's fundamental objectives are to enhance and preserve the cash to be distributed by the Fund's operating subsidiaries to the Fund, to enhance and preserve long-term value to the Fund, to ensure that the Fund and Pembina meet their obligations on an ongoing basis and to ensure that Pembina operates in a reliable and safe manner.

In exercising their powers and discharging their duties, the directors must act honestly and in good faith with a view to the best interest of the Fund and exercise the care, diligence and skill that reasonably prudent people would exercise in comparable circumstances.

There are three Board committees, each of which are made up of three independent Board members. These committees are the Audit Committee, the Human Resources and Compensation Committee and the Health, Safety, and Environment Committee. Each committee has its own defined mandate and meets periodically during the year to fulfill its duties and responsibilities. At a minimum, the Audit Committee meets quarterly, both with management and the auditors of the Fund, as well as separately with the auditors. At a minimum, the Human Resources and Compensation Committee and the Health, Safety, and Environment Committee meet semi-annually.

Audit Committee

The Audit Committee has the authority to investigate any activity of the Fund, Pembina or its subsidiaries. The Audit Committee may retain persons having special expertise to assist it in fulfilling its responsibilities and set and pay the compensation for any advisors employed.

Certain of the major responsibilities of the Audit Committee include:

- i) to ensure that Pembina and the Fund have implemented appropriate systems to identify, monitor and mitigate significant business risks;
- ii) to ensure that Pembina has implemented appropriate systems of internal control to ensure compliance with legal, ethical and regulatory requirements and that these systems are operating effectively;
- iii) to ensure that Pembina has implemented appropriate systems of internal control to ensure compliance with its policies and procedures and that these systems are operating effectively;
- iv) to review any financial forecasts or budgets of Pembina or the Fund as they relate to their operations, which are disclosed in any public document;
- v) to recommend the firm to be appointed as the Fund's external auditors and their remuneration and to meet separately with the external auditors and management to discuss the Fund's financial statements and any issues arising there from;
- vi) to review the Fund's interim and annual consolidated financial statements, Management's Discussion and Analysis and earnings press releases before they are publicly disclosed and ensure that they are fairly presented in all material respects in accordance with generally accepted accounting principles and ensure the selection of accounting policies is appropriate;
- vii) to be satisfied that adequate procedures are in place for the review of the disclosure of financial information extracted or derived from financial statements;

- viii) to ensure the external audit function has been effectively carried out, including addressing any problem or restrictions encountered by the external auditor with management;
- ix) to receive and review reports from the corporate Pension Committee of Pembina and to recommend or approve changes as appropriate with respect to risk management of pension assets and liabilities, actuarial valuations as required by statute, the Statement of Investment Policies and Procedures, funding policy and fund performance for the pension plans; and,
- x) jointly with the Human Resources and Compensation Committee, report on the status of the pension plans to the Board at least annually.

Health, Safety and Environment Committee

The Health, Safety and Environment Committee has the following advisory functions, duties and responsibilities:

- i) to ensure Pembina maintains written policies, which meet or exceed industry standards, and address risk management, accident reporting, and contingency planning in order to protect the health and safety of both employees and the public, and safeguard the environment, and to approve such policies;
- ii) to ensure Pembina establishes and maintains a health, safety and environment management program in compliance with its health, safety and environment policies, and does so in a manner which meets or exceeds industry standards and applicable health, safety and environmental laws; and,
- iii) to ensure that Pembina regularly undertakes compliance reviews to monitor its performance and to receive and review such compliance reviews and other reports of the corporate Safety and Environment Committee in order to report to the Board with respect to Pembina's health, safety and environment record.

Human Resources and Compensation Committee

The Human Resources and Compensation Committee has the following advisory functions, duties and responsibilities:

- i) through discussions with the Chief Executive Officer, to establish a performance management program for the Chief Executive Officer, set specific performance goals and measures each year for the Chief Executive Officer and assess the performance relative to the goals, and assure alignment of these goals with Pembina's business plan and provide compensation criteria for senior management;
- ii) to review with the Chief Executive Officer the officer and management structure and principal programs for leadership development and succession planning of officers other than the Chief Executive Officer, and monitor progress and development of officers and key management in accordance with succession plans;
- iii) to receive and review reports from the corporate Pension Committee of Pembina and to recommend or approve changes as appropriate with respect to pension plan design and benefit matters, pension plan administration, plan member communication and education including any applicable compliance or disclosure requirements pertaining to these areas;
- iv) to review and approve changes to the company's employment benefit plan; and,
- v) jointly with the Audit Committee, report on the status of the pension plans to the Board at least annually.

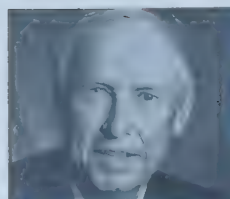
The Board has approved a Corporate Governance Manual of the Fund that sets out the duties and expectations of the Board, its committees and the management of the Fund. This manual is reviewed and updated periodically to ensure ongoing compliance with evolving corporate governance best practices.

Readers are referred to the Information Circular relating to the Fund's 2007 annual general meeting where a more detailed overview of the Fund's corporate governance practices, including the disclosure required under applicable Canadian securities laws, is contained under the heading "Statement of Corporate Governance Practices".

Committees

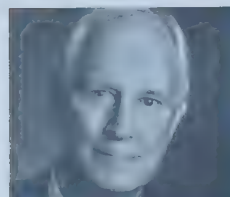
<i>Executive Directors</i>	<i>Audit Committee</i>	<i>Human Resources and Compensation Committee</i>	<i>Health, Safety and Environment Committee</i>
Lorne B. Gordon		•	
David. A Bissett		•	•
Allan L. Edgeworth	•		•
Myron F. Kanik		•	
David N. Kitchen	•		•
Robert F. Taylor	•		

BOARD OF DIRECTORS The responsibility of the Board of Directors is to supervise the management of the Fund, Pembina Pipeline Corporation and all entities controlled by either of them in the best interests of the Unitholders.



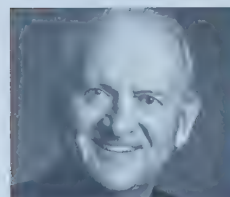
David A. Bissett *Director since May 2001.*

Mr. Bissett, a lawyer and CFA charterholder, is the founder of Bissett and Associates Investment Management Ltd., now a division of Franklin Templeton Investments. Mr. Bissett founded Bissett & Associates in 1982 after serving as Vice President, Investments of a national life insurance company and managing the western operations for a major Montreal based investment manager. Mr. Bissett is a past Chairman of the Canadian Council of Financial Analysts, past President of the Calgary Society of Financial Analysts and past Chairman of the Alberta Council of the Canadian Pension Conference. Mr. Bissett is actively involved in the governance of several private corporations and community groups.



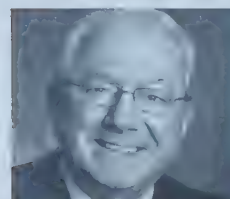
Allan L. Edgeworth *Director since July 2006.*

Mr. Edgeworth has an extensive energy pipeline background, having held a number of positions at the senior executive level, the most recent being President and CEO of Alliance Pipeline from 2001 to 2004. He is currently President of ALE Energy Inc. and a Director of TSX-listed AltaGas Income Trust and Emera Inc. He is also a Commission Member and Director of the Alberta Securities Commission. Mr. Edgeworth has served on various related industry association boards including the Interstate Natural Gas Association of America, the Canadian Gas Association and is a past Chair of the Canadian Energy Pipeline Association. He is actively engaged in various community and charitable endeavors. Mr. Edgeworth holds a Bachelor of Applied Science in Geological Engineering and is a graduate of the Queen's Executive Program.



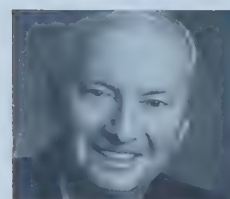
Lorne B. Gordon *Chairman of the Board since October 1997.*

Mr. Gordon was President and CEO of Pembina Corporation from 1985 to 1993. Mr. Gordon served as Chairman and Director of the Canadian Energy Research Institute from December 1994 to March 1997. He is past Chairman of the Canadian Petroleum Association, founding member of the Board of Governors of the Canadian Association of Petroleum Producers, and current Director of Mancal Corporation, Mancal Energy and Mancal Coal. Mr. Gordon received his Chartered Accountant designation in 1971.



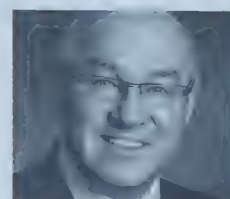
Myron F. Kanik *Director since October 1997.*

Mr. Kanik was previously with the Alberta Department of Energy and served in various capacities, including Deputy Minister. Mr. Kanik was President of the Canadian Energy Pipeline Association from 1993 to 1999. Mr. Kanik is currently a Director of TSX-listed AltaGas Income Trust and CS Petroleum Exploration and serves on the Calgary Region Health Board. He is actively engaged in the governance of several not-for-profit organizations. Mr. Kanik is a graduate in Economics and Mathematics from the University of Saskatchewan.



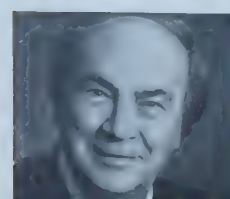
David N. Kitchen *Director since April 1999, Trustee October 1997 – 1999.*

Mr. Kitchen was Senior Vice-President and General Manager, Alberta and Northwest Territories with the Royal Bank of Canada from 1986 to 1996, and Senior Vice President, Global Energy Group of the Royal Bank from 1984 to 1986. Mr. Kitchen has an Honours Degree in Political Science and Economics from the University of Toronto and is a graduate of the Executive Program in Business from Columbia University, New York. Mr. Kitchen is affiliated with several educational and other not-for-profit organizations.



Robert B. Michaleski *President and Chief Executive Officer of Pembina Pipeline Corporation and Director since January 2000.*

Mr. Michaleski was appointed Controller of Pembina in January 1980 and Vice President Finance in September 1992. In connection with Pembina Pipeline Income Fund's initial public offering in October 1997, he was named Vice President Finance and Chief Financial Officer of Pembina. Mr. Michaleski is currently a Director of TSX-listed Real Resources Inc., and two private companies. Mr. Michaleski holds a Bachelor of Commerce (Honors) degree and received his Chartered Accountant designation in 1978.



Robert F. Taylor *Director since October 1997.*

Mr. Taylor was a Director of Shell Canada Limited and President of Shell Canada Products prior to his retirement from the company in 1996. He became Executive Vice President of Shell Canada Resources in 1991, following three years with Shell International Petroleum Company in London, England. He is currently a Director and Corporate Secretary of McTAY Holdings Limited, a private company engaged in land development projects and Sempa Power Systems Limited, a private consulting company with a focus on reducing energy costs and greenhouse gas emissions and energy use for clients across Canada. He is actively involved as a Director of The Duke of Edinburgh Commonwealth Study Conference Canada Inc. In 1999, he was recognized by Her Majesty Queen Elizabeth II with the award of a Lieutenant of the Royal Victorian Order (LVO). Mr. Taylor received his Chartered Accountant designation in 1965.

CODE OF CORPORATE RESPONSIBILITY At Pembina, good more than an independent and accountable Board of Directors.

Pembina's commitment to fostering and maintaining best practices in corporate governance extends to every level of the organization, from the Board to the management and to every employee. A four-part Code of Corporate Responsibility (the "Code") governs all Pembina employees and ensures that there is consistency in how they conduct themselves in their relationships with other employees, with stakeholders, with host communities and with government and regulatory bodies. Every employee at Pembina is required to read and sign off on all four components of the Code to confirm their personal commitment to comply with Code at all times during their employment with Pembina.

1) Code of Ethics

Pembina's reputation is one of its most important assets. Over the past nine years, Pembina's Board, management and employees have worked hard to establish an excellent reputation. To maintain this reputation, it is imperative that all current and future employees abide by the Code of Ethics by agreeing to:

- i) behave honestly;
- ii) act with integrity;
- iii) when acting on behalf of Pembina, treat everyone with respect and courtesy;
- iv) maintain confidentiality to protect corporate, personal and third party information;
- v) take responsible steps to avoid any conflicts of interest, either real or perceived;
- vi) behave in ways which uphold and reflect Pembina's values;
- vii) never use power and status to gain undue benefit or advantage over others;
- viii) treat communities and the environment in which we operate with respect; and,
- ix) always comply with the law and relevant legislation.

2) Commitment to Privacy

Pembina values all of its employees and is determined to safeguard their personal information from misuse or disclosure. Pembina takes its commitment to privacy seriously and all employees of Pembina are expected to honor this commitment. Pembina's Employee Privacy Policy is in compliance with the Personal Information Protection and Electronic Documents Act ("PIPEDA"). Specifically, Pembina is bound by the ten principles adopted by PIPEDA to protect personal information. These principles include: accountability; identified purpose; consent; limiting collection; limiting use; disclosure and retention; accuracy; safeguards; openness; individual access; and, challenging compliance.

3) Commitment to a Respectful Workplace

This policy defines a respectful workplace as one where every person in the workplace is free from harassment based on race, national or ethnic origin, color, religion, age, sex, sexual orientation, marital status, family status, disability and pardoned conviction. Every employee at Pembina is responsible for maintaining a respectful workplace and for taking appropriate action if they witness incidents of harassment. This policy outlines procedures for resolving harassing behavior, including facilitated problem solving, mediation and a formal complaint process. This policy also guarantees the confidentiality of any person making or reporting a complaint.

4) Commitment to Health, Safety and Environment

Pembina is committed to conducting business in an environmentally and socially responsible manner. Specifically, this policy sets out Pembina's obligations to:

- i) identify risks to health, safety and the environment, and to establish appropriate programs and procedures to reduce these risks to an acceptable level;
- ii) develop and maintain standards of performance, which meet or exceed regulatory requirement and industry standards, and provide the training necessary for employees to understand and meet these standards;
- iii) insist that our employees and contractors conduct their activities in accordance with Pembina standards;
- iv) maintain regular monitoring and reporting on health, safety and environmental performance to ensure timely improvement in operating practices;
- v) promote and maintain communications with the public affected by our operations so that we can address their concerns;
- vi) develop and maintain emergency response plans appropriate for our operations and test their effectiveness on a regular basis; and,
- vii) emphasize reducing, reusing, recovering and recycling materials used in our day to day operations.

By signing this policy, every employee of Pembina agrees to take an active role to protect the health and safety of other employees and members of the general public who are affected by Pembina's activities and to do their part to safeguard the environment in which Pembina works.

Pembina takes its commitment to fostering and maintaining an ethical organizational climate very seriously and all employees of Pembina are expected to honor this commitment. Every Pembina employee is given a personal copy of the four-part Code of Corporate Responsibility and is expected to be familiar with it. Employees are encouraged to refer to these policies whenever they are uncertain as to the behavior expected of them and to ask questions if they need clarification.

In the event that an individual reports a violation of the Code, Pembina is committed to treat them fairly and to respect their privacy.

Pembina takes pride in its reputation for good governance and believes that this four-part Code sets in place a comprehensive system of corporate governance at all levels of the organization.

A copy of the Code of Ethics is available on the fund's website at www.pembina.com or on the Funds' SEDAR profile at www.sedar.com.



Management's Discussion and Analysis



MD & A The following discussion and analysis of the financial results of Pembina Pipeline Income Fund ("Pembina" or the "Fund") dated March 8, 2007 is supplementary to, and should be read in conjunction with, the Audited Consolidated Financial Statements for the years ended December 31, 2006 and 2005. This MD&A has been reviewed by both the Audit Committee and the Board of Directors. All amounts are stated in Canadian Dollars unless otherwise specified.

2006 Highlights and Selected Information ^{(1) (2)}

<i>Years ended December 31 (in millions of dollars, except per Trust Unit amounts and where noted)</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>
Revenue	\$ 335.8	\$ 290.5	\$ 279.1
Operating expenses	119.0	102.7	105.0
Net operating income ⁽²⁾	216.8	187.8	174.1
EBITDA ⁽²⁾	184.2	169.5	158.0
Interest on long-term debt	24.9	23.9	24.1
Interest on convertible debentures	7.7	16.6	19.9
Net earnings before taxes	64.6	42.8	29.3
Net earnings	88.9	70.4	60.4
Net earnings per Trust Unit – basic and diluted	0.73	0.65	0.60
Distributable cash ⁽²⁾	148.2	123.4	110.5
Distributed cash ⁽²⁾	142.3	113.5	106.2
Distributed cash per Trust Unit ⁽²⁾	1.165	1.05	1.05
Trust Units outstanding (weighted average, thousands of Units)	122,094	108,108	101,139
Trust Units outstanding (end of year, thousands of Units)	126,218	113,897	102,933
Total enterprise value ⁽²⁾	2,655.1	2,500.2	2,134.8
Capital expenditures	168.9	79.5	58.0
Total assets	1,676.2	1,559.1	1,548.9
Total long-term financial liabilities	752.6	763.8	865.6

⁽¹⁾ Pembina Pipeline Income Fund distributes cash generated by the pipeline operations of Pembina Pipeline Corporation and other operating subsidiaries.

⁽²⁾ Refer to "Non-GAAP measures" on page 36.

FORWARD-LOOKING INFORMATION AND STATEMENTS

The information presented in this Management's Discussion and Analysis ("MD&A") contains certain forward-looking statements and information that are based on the Fund's current expectations, estimates, projections and assumptions in light of its experience and its perception of historical trends. In some cases, forward looking statements and information can be identified by the terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates", "intends", "targets", "believes", "estimates", "continue", "designed", "objective", "maintain", "schedule" and similar expressions. In particular, this MD&A contains forward-looking statements with respect to: future stability and sustainability of cash distributions to Unitholders; ongoing expansions of and additions to our asset base; future growth and growth potential in Pembina's conventional pipelines, oil sands infrastructure and midstream operations; potential revenue enhancement; continued high levels of oil and gas activity and increased oil and gas production in proximity to our pipelines and other assets; additional throughput potential on additional connections; expected project start-up and construction dates; future distributions, payout ratios and taxation of distributions; the completion of future debt and equity financings; future capital expenditure requirements; the future development of the condensate project, CO₂ flooding, full service truck terminals, and the expansion of midstream services.

These statements are not guarantees of future performance and are subject to a number of known and unknown risks and uncertainties, including but not limited to, the impact of competitive entities and pricing, reliance on key alliances and agreements, the strength and operations of the oil and natural gas production industry and related commodity prices, regulatory environment, tax laws and treatment, fluctuations in operating results and certain other risks detailed from time to time in the Fund's public disclosure documents. The Fund believes the expectations reflected in these forward-looking statements and information are reasonable as of the date hereof but no assurance can be given that these expectations will prove to be correct. Undue reliance should not be placed on these forward-looking statements and information as both known and unknown risks and uncertainties, including those business risks stated above, may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements and information. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. Such forward-looking statements and information are expressly qualified by the above statements. The Fund does not undertake any obligation to update publicly or revise forward-looking statements or information contained herein, except as required by applicable laws.

NON-GAAP MEASURES

The financial statements of the Fund are presented in Canadian dollars and in compliance with Canadian generally accepted accounting principles ("GAAP"). Throughout this MD&A the Fund and Pembina use the following terms that are not defined by GAAP:

Distributable cash The amount of cash that is available for distribution before retaining a portion as reserve to absorb the impact of material one-time events and to reduce bank indebtedness. Not all available cash is distributed to Unitholders.

Distributed cash The amount of cash that has been or is to be available for distribution to the Unitholders. Distributed cash is calculated pursuant to the terms of the Declaration of Trust.

Distributed cash per Trust Unit Calculated on a weighted average basis using basic and diluted units outstanding during the year.

Earnings before interest, taxes, depreciation and amortization ("EBITDA") Net income plus depreciation and amortization, financing charges and income taxes.

Enterprise value Calculation based on the market values of Trust Units and Debentures at December 31, 2006 plus senior debt.

Net operating income Revenues less operating expenses.

Management believes that in addition to net earnings, the above noted items are useful measures. They provide an indication of the results generated by the Fund's business activities prior to consideration of how the activities were financed or how the results are taxed. Investors should be cautioned however that distributable cash, distributed cash, EBITDA, enterprise value and net operating income should not be construed as alternatives to net earnings, cash flow from operating activities or other measures of financial results determined in accordance with GAAP as an indicator of the Fund's performance. Furthermore, these measures may not be comparable to similar measures presented by other issuers.

MATERIALITY

For the purposes of the MD&A and the financial statements and for the purposes of general disclosure to the investment community, Pembina considers an item or event to be material if the omission or misstatement of an item of information or event, or an aggregate of such items or events, would influence or change a decision to buy, sell or hold the Fund's securities. In order to determine what information would be considered as material, Pembina's review includes, but is not limited to, determination as to the effect on income and operating costs, future impact to operations and overall returns to Pembina. Outside legal counsel is also consulted with respect to the required disclosure applicable to certain matters.

OVERVIEW

Vision, Strategy and Growth

Pembina's principal objective is to provide a stable stream of distributions to Unitholders that is sustainable over the long-term while pursuing opportunities for enhancement through accretive growth. Pembina believes the most prudent manner to achieve this objective is to maintain and to develop assets around Pembina's hydrocarbon-liquids services business within western Canada. This business is developed through the continuous improvement and ongoing expansion of Pembina's asset base and the acquisition of quality energy infrastructure assets. To Pembina, "quality" means assets that are imbued with inherent competitive advantages, which are under long-term contract with credit-worthy customers, and either service or are in close proximity to long-life and economic hydrocarbon reserves. This strategy is intended to generate stable or increasing per-unit cash distributions to Pembina's Unitholders over the long-term.

The primary objective for Pembina's conventional pipeline assets in Alberta and British Columbia ("BC") is the maintenance of operating margin contribution while pursuing opportunities for increased throughput and revenue enhancement. Margins are maintained through incremental volume capture, use of toll management, strict adherence to operating cost control, expansion and asset rationalization. By offering cost-effective, competitively positioned and reliable transportation services to our customers, Pembina undertakes to attract new business to its conventional pipeline systems.

Pembina intends to leverage its uniquely positioned infrastructure and operating knowledge in the oil sands sector to pursue future opportunities in this key development area. Pembina's existing oil sands assets, and those recently developed or currently under development (primarily the Cheecham Lateral and the Horizon Pipeline, respectively), offer fully contracted and long-term returns which provide a secure stream of stable cash flow to the Fund. Further expansion of Pembina's business interests in this area is a priority.

The ongoing expansion of Pembina's midstream business is also a priority. Pembina intends to continue to initiate new terminalling, storage and hub services over segments of its conventional pipeline systems. Pembina anticipates that this integration strategy will produce significant benefits to both pipeline customers and Unitholders of the Fund, by expanding the range of services offered, extending the economic life of Pembina's conventional asset base and by providing substantial revenue enhancement potential.

Financial Management

Pembina maintains a conservative debt structure that allows it to finance its day-to-day cash requirements through its operations, without requiring external sources of capital. Pembina funds its operating commitments, short-term capital spending as well as its distributions to Unitholders through this cash flow, while new borrowing and equity issuances are reserved for the support of specific significant development activities. Long-term debt is comprised of bank credit facilities, senior secured and unsecured notes and convertible debentures, all of which are denominated in Canadian Dollars.

Corporate Governance

Pembina is committed to the highest standard of corporate governance and ethical practice, both within the corporate boardroom and throughout its operations. Pembina's Code of Ethics which is available on the Fund's website at www.pembina.com and on the Fund's SEDAR profile at www.sedar.com outlines our vision, strategy and commitment to fair and ethical practices. The Code of Ethics establishes a high standard governing the activities of Pembina's employees, executive and Board members, and reiterates Pembina's commitment to privacy and the protection of confidential information, a safe, healthy and respectful workplace and environmentally sound operations. Beyond this, Pembina maintains a culture of strong corporate governance and it ensures that it is in compliance with all existing rules and regulations of the governing bodies under which it operates. These corporate governance practices are not limited to internally focused activities. Pembina places a great deal of importance on community involvement and maintaining good relationships with all stakeholders.

Reporting and Disclosure Controls and Procedures

As part of the requirements mandated by the Canadian securities regulatory authorities under Multilateral Instrument 52-109 "Certification of Disclosure in Issuer's Annual and Interim Filings", the Chief Executive Officer and the Chief Financial Officer have evaluated Pembina's reporting and disclosure controls and procedures as of December 31, 2006. It was concluded that the disclosure controls and procedures are effective in ensuring that the information disclosed in the financial statements, the annual report and other filings to the Canadian securities regulatory authorities are accurate and complete and filed within the mandated timelines. These reporting and disclosure controls provide reasonable assurance that the information that Pembina is required to disclose is appropriately accumulated and communicated to Pembina's management in a timely manner.

The certifying officers are also responsible for establishing and maintaining internal control over financial reporting. These controls are designed to provide reasonable assurance regarding the reliability of our financial reporting and compliance with Canadian generally accepted accounting principles in our consolidated financial statements. The Fund has designed such controls and confirms that there have been no changes that occurred during the year that have materially affected the Funds internal control over financial reporting.

New Developments and Outlook

Since its initial public offering in 1997, Pembina has established a portfolio of high-quality infrastructure extending across the growing areas of the energy business in Alberta and BC. This portfolio of long-life assets provides diversification across the hydrocarbon liquids spectrum as well as between toll-based and fee-for-service based infrastructure assets. This portfolio approach provides stability and sustainability of Pembina's operations, and a resilient base for distributions to Unitholders.

Pembina is optimistic that record levels of new developments on the Alberta system may provide, for the near future, year-over-year increases in cash flows offsetting natural production declines. Throughput volumes on several existing connections are expected to increase and two new meaningful connections are expected to come on-stream in mid-2007. Pembina also continues to work with customers in attracting new Natural Gas Liquids ("NGL") volumes. BC volumes are expected to see continued natural declines in throughputs in 2007.

During 2006, Pembina commenced the development of a condensate project from Kitimat to Summit Lake, BC. If completed, the proposed pipeline will have the capacity to transport 100,000 barrels per day of condensate, to supply the rapidly growing oil sands developments in north-east Alberta. Pembina has progressed discussions with a number of stakeholders, including customers, governments, local communities and First Nations regarding this project.

With the completion of the construction of the Cheecham Lateral and the commencement of the expansion for the Horizon Pipeline, Pembina has solidified its position among the largest of the oil sands infrastructure players in western Canada. Both transportation agreements have a minimum 25-year term and provide Pembina with a solid operating base in the region, as well as consistent operating revenue over the life of the agreements. Combined with the existing Alberta Oil Sands Pipeline ("AOSPL"), Pembina anticipates that it will have capacity to transport approximately 640,000 barrels per day of synthetic crude oil produced from oil sands by the end of 2008, with exclusive rights to provide further transportation capacity to Canadian Natural Resources Limited's Horizon Oil Sands Project ("Horizon Project") should it be required.

Pembina continues to expand its midstream business operations with the 2006 implementation of new services across segments of its conventional pipeline systems. Pembina expects the trend toward vertically integrating services to continue into 2007. Pembina is investigating offering services upstream of its existing pipelines through the development of full service truck terminals. Pembina anticipates that any revenue from these activities will be primarily tariff based.

In July, Pembina announced an increase in its annual distribution rate to \$1.20 per Trust Unit, effective August 1, 2006 and in December, announced a further increase to \$1.32 effective with the January 2007 distribution paid February 15, 2007. The maintenance of and future increases in the distribution are subject to expansion of Pembina's operations, however in the near term management expects that operations will remain robust and the new distribution level will be maintained.

Pembina expects the significant level of industry activity in our service areas experienced in 2006 to continue in 2007. This industry activity may result in further increases in the costs for materials and services to which Pembina will respond through our established programs of cost control, toll management, and asset rationalization. There will continue to be growing demands relating to the inspection and maintenance of our asset base from both a regulators and prudent operators perspective. Pembina will safely manage and operate all of its systems and infrastructure while ensuring overall operating margins are maintained.

The numerous expansion and growth initiatives spanning all three of our business segments lend confidence to Pembina's continuing ability to meet its business objectives and to generate stable, sustainable distributions to Unitholders.

Results from Operations

	2006		2005	
(in millions of dollars, except where noted)	Revenues	Net operating income ⁽¹⁾	Revenues	Net operating income ⁽¹⁾
Conventional Pipelines	\$ 223.0	\$ 133.1	\$ 204.3	\$ 123.9
Oil Sands Infrastructure	62.1	37.3	55.5	37.0
Midstream Business	50.7	46.4	30.7	26.9
Total	\$ 335.8	\$ 216.8	\$ 290.5	\$ 187.8

⁽¹⁾ Refer to "Non-GAAP Measures" on page 36.

Consolidated revenue in 2006 was \$335.8 million, a 15.6 percent increase from 2005 revenue of \$290.5 million. The increase is due to a combination of higher tolls resulting from increased operating costs and capital expenditures and higher throughputs on the conventional pipeline systems. Additionally, higher flow through operating expenses and incremental returns on rate base additions on the AOSPL system as well as the positive impact of the continued growth of the midstream business operations also contributed to the increase in revenues. The conventional pipeline systems generated revenue of \$223.0 million in 2006, an increase of \$18.7 million or 9.2 percent compared to revenue of \$204.3 million in 2005. The oil sands systems generated revenue of \$62.1 million in 2006, an increase of \$6.6 million or 11.9 percent compared to revenue of \$55.5 million in 2005 of which \$6.3 million relates to flow through of operating expenses. The midstream operations generated revenue of \$50.7 million in 2006, an increase of \$20 million from 2005 midstream revenue of \$30.7 million, a 65 percent increase over last year.

Net operating income in 2006 was \$216.8 million, a 15.4 percent or \$29 million increase from 2005 net operating income of \$187.8 million. The increase in revenues of \$45.3 million is offset by a \$16.3 million or 15.8 percent increase in operating costs from \$102.7 million in 2005 to \$119.0 million in 2006. Higher operating expenses were partly due to increased maintenance spending and higher power costs.

Consolidated Revenues

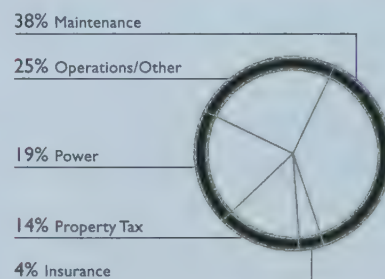


⁽¹⁾ Conventional pipelines only.

Operating Costs



Composition of 2006 Operating Costs



CONVENTIONAL PIPELINES

(in millions of dollars, except where noted)	2006		2005	
	Alberta	BC ⁽¹⁾	Alberta	BC ⁽¹⁾
Average throughput (mbbls/day)	425.8	22.7	411.6	23.8
Revenue	\$ 195.2	\$ 27.8	\$ 179.0	\$ 25.3
Operating expenses	72.1	17.8	65.4	15.0
Net operating income ⁽²⁾	123.1	10.0	113.6	10.3
Capital expenditures	41.1	13.7	44.2	11.3
Operating expenses (\$/bbl)	0.46	0.88	0.44	0.74
Average revenue (\$/bbl)	\$ 1.26	\$ 1.38	\$ 1.19	\$ 1.24

⁽¹⁾ Represents volume transported on the Western system only. Volume transported east on BC pipelines is included in Alberta pipelines total. Revenue, operating expenses and net operating income include both Western and BC gathering system results.

⁽²⁾ Refer to "Non-GAAP Measures" on page 36.

Alberta Pipelines

Throughput on the Alberta pipelines averaged 425,800 barrels per day in 2006, an increase of 14,200 barrels per day over the 2005 average throughput of 411,600 barrels per day. The increase is supported by the continued strong oil and natural gas industry activity in the Alberta pipelines operating region resulting in new connection requests on the Peace system as well as increased throughputs at some existing pipeline connections. The new Calven connection added over 15,000 barrels per day of throughputs to the Peace system. This increased industry activity level has also impacted the Drayton Valley system where the connection of three new Nisku zone production facilities increased throughputs in 2006 compared to 2005. The resulting increased volumes were partially offset by natural production declines in mature areas and weaker NGL receipts from several connected gas plants.

The Alberta pipelines generated revenue of \$195.2 million in 2006, up from \$179.0 million in 2005. Average revenue per barrel on the Alberta systems of \$1.26 in 2006 was up 7 cents per barrel compared to the average of \$1.19 in 2005. Higher per barrel revenue on the Alberta systems was partially attributable to toll adjustments implemented on certain systems at the end of 2005 and during the first quarter of 2006.

Operating expenses for the Alberta conventional pipelines were \$72.1 million in 2006, up \$6.7 million from \$65.4 million in 2005. The increase is attributable to increased maintenance spending and additional power requirements. Power continues to be a significant component of these costs, constituting over 12.3 percent of the total operating costs for Alberta conventional pipelines. As part of Pembina's risk management program, the non-transmission portion of costs on principally all of Pembina's estimated power requirements for its Alberta conventional pipelines have been fixed in a power rate swap transaction. Through a series of transactions, 16 mega watts per hour has been hedged

to December 31, 2010 to minimize our exposure and subsequent flow through to shippers of power cost fluctuations. As a result of the hedge, power cost savings were \$4.6 million in 2006 compared with savings of \$3.5 million in 2005. The fixed unit costs for 2006 under this hedging arrangement were below the market cost of electric power during the year, and the mark to market value of the power rate swap at December 31, 2006 was an unrealized gain of \$7.6 million (refer to "Changes in Accounting Principles and Practices" on page 56).

Pembina maintains an optimistic outlook for 2007 operating results for the Alberta conventional pipelines. Additional volumes from new connections, incremental volumes from the Calven and the Nisku connections where volumes are expected to increase in 2007 compared to 2006 and toll increases on most systems which have been implemented to counter the effect of continually rising operating expenses are expected to offset natural declines in volumes from connected reserves. Pembina anticipates an increase in operating income on the Alberta systems in 2007 compared to 2006, due to incremental volumes on these systems.

Given the anticipation of continued robust commodity prices and increasing levels of sulphur on the system, Pembina embarked on a product segregation initiative on the Drayton Valley system to ensure that the quality of product was maintained for our customers. This initiative physically separates the low sulphur sweet crude from crudes containing higher levels of sulphur, thus preserving the higher value for shippers of sweet crude. This \$30 million project consists of adding storage tanks at the Alsike and Buck Creek Pump Stations, modifying the piping at those two pump stations, and adding approximately 50 kilometres of new pipeline. These new facilities will be completed in 2007.

BC Pipelines

Volumes transported on the BC gathering systems averaged 32,300 barrels per day in 2006 slightly higher than the 2005 average of 32,000 barrels per day. Volumes shipped on the BC gathering system are directed onto the Western system or east on the Alberta conventional systems. Volumes transported on the Western system in 2006 were 22,700 barrels per day, down from the 23,800 barrels per day in 2005. The reduction is to a large extent due to planned maintenance outages during the year which temporarily disrupted operations and diverted volumes to other Pembina systems.

Revenue generated by the BC gathering systems and the Western system (collectively called the "BC Pipelines") was \$27.8 million in 2006, a \$2.5 million increase from 2005 revenue of \$25.3 million. This increase is due to higher revenue requirement on the provincially regulated BC gathering systems because of increased maintenance and capital expenditures. Revenue on the BC gathering systems totaled \$17.8 million, an increase of \$3.2 million from 2005. Revenue generated by the Western system decreased slightly by \$0.7 million, from \$10.7 million in 2005 to \$10.0 million in 2006.

Operating expenses on the BC pipelines totaled \$17.8 million in 2006, an increase of \$2.8 million compared to the \$15.0 million in 2005. The increase is primarily due to an increase in maintenance costs from 2005 to 2006. In 2004, Pembina expanded its maintenance, inspection and integrity program on the BC systems – with special focus on the Western system. Throughout the last two years, BC facilities have been undergoing major upgrading, inspections and repair programs. Pembina anticipates the upgrading to continue in 2007 with approximately \$6.5 million in planned expenditures for integrity requirements.

The largest project on the BC Pipelines in 2006 was the replacement of a river crossing on the Western system. Erosion caused by the Pine River changing course due to record rainfall in 2005 threatened to expose the Western pipeline. A one kilometre section of the pipeline was replaced using horizontal directional drilling methods at a cost of approximately \$4.0 million.

The crack inspection program continued in 2006 on the Western pipeline. The inspection of the southern half of the pipeline was completed in 2006 with the northern half of the pipeline having been completed in 2005. Pembina plans to conduct a corrosion inspection on the southern half of the pipeline in 2007.

Revenue on the provincially regulated BC gathering pipelines is based on recovery of operating costs and a return on capital invested, and is independent of throughput. No new connections to these pipelines are anticipated for 2007. Volumes on the Western system will continue to be transported at tariff rates fixed under a tolling agreement that is scheduled to expire mid-2007. We have opened negotiations with shippers with respect to future tolls. Average throughput on the Western system is expected to decline somewhat from the 2006 levels, as it is anticipated that more of the volumes transported by the BC gathering pipelines will be directed eastwards on the Alberta pipeline systems. However, these volumes, and the resulting revenue generated on the Western system, will ultimately remain dependent upon the marketing decisions of the system shippers.

OIL SANDS INFRASTRUCTURE

<i>(in millions of dollars, except where noted)</i>	2006 ⁽¹⁾	2005 ⁽¹⁾
Average throughput (mbbls/day)	389.0	389.0
Revenue	\$ 62.1	\$ 55.5
Operating expenses	24.8	18.5
Net operating income ⁽²⁾	37.3	37.0
Capital expenditures	101.8	6.9
Operating expenses (\$/bbl)	0.26	0.23
Average revenue (\$/bbl)	\$ 0.65	\$ 0.69

⁽¹⁾ Oil sands revenue is contract-based and independent of utilization rates, therefore oil sands volumes reported are contracted capacity.

⁽²⁾ Refer to "Non-GAAP Measures" on page 36.

For 2006, oil sands results consist entirely of AOSPL operations, with the exception of capital expenditures, which includes investments in the Horizon Pipeline and Cheecham Lateral. The contracted capacity on AOSPL remained at 389,000 barrels per day in 2006. The actual throughput on the system was 263,500 barrels per day in 2006, an increase of 44,800 barrels per day from the 2005 throughput of 218,700 barrels per day. Year end receipts on the AOSPL system saw record throughputs, exceeding 300,000 barrels per day due to the 2006 completion of the major expansion at the Syncrude plant with resumed operations in the third quarter of 2006. However, AOSPL is a contract-based system and Pembina's revenues are not dependent on utilization rates; returns are calculated based on Pembina's total invested capital and the full recovery of operating costs for the system.

The AOSPL system generated revenue of \$62.1 million in 2006, a \$6.6 million increase from 2005 revenue of \$55.5 million. This revenue increase is reflective of the higher operating costs in 2006 which flow through to revenue.

Operating expenses for AOSPL were \$24.8 million in 2006, compared to \$18.5 million in 2005. The increase of \$6.3 million in operating expenses is explained by a significant increase in the price of most operational inputs, primarily power, given the effects of a substantial increase in daily throughputs when the Syncrude plant resumed production in the third quarter of 2006. The increased volumes resulted in higher power requirements in 2006.

In September 2005, Pembina entered into an agreement for the construction and operation of a 56-kilometre lateral pipeline for the delivery of synthetic crude oil from an existing pump station on the AOSPL system to a new terminalling facility located near Cheecham, Alberta. In 2006, Pembina completed the construction of the Cheecham Lateral. This pipeline has a capacity of 136,000 barrels per day and commenced generating revenue February 1, 2007. Under the 25-year extendible agreement, Pembina will earn a return based on the capital invested and the full recovery of operating costs.

In 2006, Pembina executed definitive agreements with Canadian Natural Resources Limited ("Canadian Natural") for the Horizon Pipeline. Under the agreements, Pembina will provide dedicated pipeline transportation service of up to 250,000 barrels per day of synthetic crude oil to the Horizon Project over an extendible 25-year term commencing on the in-service date. Pembina has agreed to complete the twinning of its existing AOSPL pipeline and construct a new pipeline from the AOSPL terminal to the Horizon Project, to form the Horizon Pipeline over three construction phases, the first of which commenced in November 2006. Pembina expects the twinning to be substantially completed during the first two construction phases with the installation of approximately 135 kilometres of 24-inch and 30-inch diameter pipeline. Preliminary activities are currently underway in advance of the second and final phases of construction, which are currently scheduled over the summer 2007 and winter 2007/2008 construction seasons, which will entail the installation of 73 kilometres of 20-inch pipeline connecting

the Horizon Project to the AOSPL terminal. Commissioning is currently scheduled for mid-2008 and Pembina expects the pipeline will be available for service in mid-July, 2008. The total cost of the Horizon Pipeline is estimated at \$350 million. Pembina has secured contracts for all major elements of the project and has acquired the pipe required to complete all three construction phases. Canadian Natural will have exclusive use of the Horizon Pipeline and Pembina will have the exclusive right to construct expansions or extensions to the pipeline. The contracted revenue requirement includes a provision for a fixed rate of return on invested capital and the full recovery of operating costs.

For 2007, Pembina expects revenue from the oil sands operations to increase due to revenues being recorded from the Cheecham Lateral. Pembina does not anticipate any significant change to the rate base or operating costs for AOSPL for 2007.

MIDSTREAM BUSINESS

<i>(in millions of dollars, except where noted)</i>	2006	2005
Revenue ⁽¹⁾	\$ 50.7	\$ 30.7
Operating expenses	4.3	3.8
Net operating income ⁽²⁾	46.4	26.9
Capital expenditures	\$ 12.3	\$ 17.1

⁽¹⁾ Net of \$5.1 million in product purchase expense for 2006 (2005: nil)

⁽²⁾ Refer to "Non-GAAP Measures" on page 36.

Pembina's midstream operations consist of the 50 percent non-operated interest in the Fort Saskatchewan Ethylene Storage Limited Partnership and the terminalling, storage and hub services on certain of the Alberta conventional pipelines.

Total net operating income generated by the midstream business in 2006 was \$46.4 million, up \$19.5 million from 2005. In 2006, Pembina garnered the benefits of a full year of midstream revenue on the Swan Hills and Cremona systems and the late 2006 start-up of midstream services on the Drayton Valley system. The ethylene storage facility generates returns based on a 20-year renewable contract, maturing in June of 2023. The contract, with the two principal facility customers, provides for full operating cost recovery plus a return on invested capital. Total revenue generated by the ethylene storage facility in 2006 was up slightly from 2005 at \$21.9 million compared to \$21.5 million in 2005 due to higher operating costs and slightly higher sustaining capital given the flow through nature of these costs.

Operating costs on the midstream operations remained relatively constant, due to the steady operations of the ethylene storage facility and the low operating costs associated with the other midstream business activities.

Pembina expects to see significant growth in the terminalling, storage and hub services component of its operations over the next several years. Pembina expects the 2007 results of the Fort Saskatchewan Ethylene Storage Limited Partnership to be very similar to 2006 given the long-term contract on the ethylene storage facility and the stable nature of the revenue stream generated by this interest.

EXPENSES

General and administrative

General and administrative expenses were \$25.6 million in 2006, an increase of \$8.5 million compared to \$17.1 million in 2005. The most significant components of this increase are salaries and benefits. As Pembina's asset base continues to expand, the company has faced an increasing number of operational, regulatory and compliance requirements as well as costs associated with the development of future opportunities. These increased demands have required an increase in staff levels in order to ensure sufficient resources are available. The Calgary based staff grew from 88 people at the end of 2005 to 98 at the end of 2006 an increase of 11.4% in staff complement. In addition, the record levels of oil and gas industry activity in western Canada have driven market-based increases in salaries and benefits. As a result, staffing costs have risen and appropriately trained and experienced staff are more difficult to attract and retain. In addition, higher short-term incentives and the introduction of a company-wide long-term incentive program in 2006 reflect Pembina's response to competitive pressures. Overall, general and administrative expenses represent 11.8 percent of net operating income and 7.6 percent of revenues in 2006, as compared to 9.1 percent and 5.9 percent in 2005, respectively.

Management fees

Pembina was managed by Pembina Management Inc. (the "Manager") that was owned by the officers of Pembina until June 30, 2006.

Management fees under the management agreement for 2006 were \$1 million for services between January 1 and June 30, 2006 versus \$1.2 million for the full year in 2005. On June 30, 2006, the Fund internalized the management contract by acquiring all of the outstanding common shares of the Manager to mitigate the impact of a potentially increasing liability arising from escalating management fees. Total consideration for the transaction consisted of an initial cash payment of \$6 million and a contingent deferred payment payable in 2009 that is linked to future growth in distributable cash per Trust Unit of the Fund. If the future cumulative distributable cash in the period from January 1, 2006 to December 31,

2008 does not exceed \$3.42 per Trust Unit (\$1.14 per Trust Unit per year), the deferred amount is zero. Every approximate 10 cent per Trust Unit increase in cumulative distributable cash over \$3.42 per Trust Unit results in a \$1 million increase in purchase price to a maximum of \$15 million, which is converted into notional Trust Units based on the weighted-average trading price of the Trust Units for the 20 trading days prior to June 30, 2006 of \$15.87 (the closing price). The purchase price will also be adjusted by the distributions payable on the notional Trust Units for the period January 1, 2006 to December 31, 2008, and the change in the value of the Fund's Trust Units from the closing price. No further payments under the share purchase agreement are payable until 2009, however assuming the 2007 and 2008 distributable cash is similar to 2006, the potential deferred payment would be \$2.2 million. Pursuant to the share purchase agreement, a copy of which is available at www.sedar.com and on Pembina's website, no future management fees will be payable by the Fund to the Manager (refer to Note 3 to the Financial Statements).

Depreciation and amortization

Depreciation and amortization expenses were comparable year-over-year at \$85.6 million in 2006 and \$85.3 million in 2005. Conventional pipeline assets and facilities are depreciated on a straight line or declining balance basis at rates ranging from 3 percent to 10 percent per annum. These rates have been established to depreciate original costs over the economic or contractual life of the related assets. AOSPL assets are depreciated over the life of the long-term transportation agreement under which the system is administered. This agreement is currently set to expire at the end of 2035. The storage facility assets are amortized over the 20-year life of the storage agreement, which expires in June 2023.

Beginning January 1, 2007, the conventional pipeline assets and facilities are being depreciated on a straight line basis over the estimated service life of the assets which range from 25-30 years depending on the pipeline system (refer to "Critical Accounting Estimates – Depreciation" on page 55).

Accretion on asset retirement obligations

Accretion on asset retirement obligations was \$1.4 million in 2006 compared to \$1.0 million for 2005. The slight increase was due to the increase in the asset retirement obligation (re-evaluated yearly) for estimates related to the ultimate retirement expense of assets and facilities. Accretion on asset retirement obligations is based on estimates of the operating life and the ultimate retirement expense for assets and facilities. The actual results may differ from these estimations. In 2006 and 2005 there were no asset retirements.

Interest expense and financial instruments

Net interest expense for 2006 was \$24.9 million, a \$1 million increase from 2005 of \$23.9 million. The increase in interest expense is due to the increase in average debt outstanding throughout the year. Outstanding total debt at the end of 2006 was \$553.4 million, \$89.3 million higher than the 2005 closing balance. The increase was mostly due to the financing of development capital expenditures of \$165.5 million offset by proceeds of \$76.6 million from the Premium Distribution, Distribution Reinvestment and Optional Cash Purchase Plan ("DRIP"). In 2006, interest of \$4 million relating to development projects was capitalized, whereas interest of \$2.1 million was capitalized in 2005. At year end, Pembina had a \$60.0 million interest rate swap outstanding on the floating senior debt, with an average rate of 5.23% and an average remaining term to expiration of 1.4 years. The unrealized mark to market loss on the interest rate swaps was \$0.1 million at December 31, 2006. The \$25 million interest rate swap that was outstanding as at December 31, 2005 matured on August 29, 2006. Including the interest swaps, interest rates on \$527.7 million in senior secured and unsecured notes have been fixed, leaving roughly 5 percent of Pembina's outstanding debt exposed to interest rate fluctuations.

Convertible debentures

Interest on convertible debentures in 2006 was \$7.7 million, compared to \$16.6 million for 2005. The \$8.9 million decrease is due to the conversion of a significant number of the convertible debentures into Trust Units. In 2006, \$81.2 million in convertible debentures were converted into Trust Units, reducing the total principal amount outstanding, net of issue costs, from \$158.0 million at December 31, 2005 to \$76.8 million at December 31, 2006. Of the total amount outstanding at the end of 2006, the remaining principal balances are as follows: \$64.4 million at 7.35 percent and convertible at \$12.50 per unit maturing December 31, 2010; and \$15.6 million at 7.5 percent and convertible at \$10.50 per unit maturing June 30, 2007. Furthermore, the 8.25% debentures matured on March 31, 2006. Given that the trading price of the Trust Units consistently remains above the conversion prices for the debentures, Pembina anticipates that the conversion of the debentures into Trust Units will continue throughout 2007 but at a slower rate due to the decrease in Trust Unit price effected by the recent proposed changes tabled by the Federal Government relating to taxation of income trusts.

Income taxes

Because the Fund is a unit trust for income tax purposes, the Fund is taxable on the income that is not distributed to Unitholders. Pursuant to its Declaration of Trust, the Fund is required to distribute all of its income to the Unitholders, subject to maintaining sufficient working capital reserves. However, the subsidiaries of the Fund are taxable entities and any income tax expenses or future income tax liabilities reported in the consolidated financial statements of the Fund are those of the subsidiaries.

As at December 31, 2006, the future income tax liabilities of the subsidiaries totaled \$113.6 million. These liabilities are determined by applying future statutory income tax rates to the differences between the book values and the tax values of the capital assets. The differences arose either at the time of the initial acquisition of the assets on the establishment of the trust or on subsequent acquisitions. Upon recognition of the future income tax liability, an equivalent amount has been allocated to goodwill as the estimated depreciated replacement cost of the acquired assets approximated the value of those assets. The future income tax reduction of \$24.3 million in 2006 represents the change between the book value and the tax value of the acquired assets at the future statutory income tax rates plus other timing differences.

Pension liability

The Fund's subsidiary, Pembina Pipeline Corporation, maintains non-contributory defined benefit pension plans together with an unfunded supplemental retirement plan covering 324 employees and 114 retirees. At the end of 2006, the pension plans carried a deficit of \$6.1 million, compared to a deficit of \$11.6 million at the end of 2005. At December 31, 2006, plan obligations amounted to \$78.3 million, compared to plan assets of \$72.2 million. During 2006, the pension plans' expense was \$4.6 million, compared to \$3.4 million in 2005. Contributions to the pension plans totaled \$9.0 million in 2006, down from 2005 contributions of \$13.3 million resulting from a reduction in the voluntary portion of the contribution due to a significant reduction in the deficit of the plans.

The accrued pension plans asset of \$13.2 million represents the net difference between the amounts required to be expensed in the Fund's financial statements and the amount contributed to the pension plans. In 2007, contributions to the pension plans and the pension plans expense are both anticipated to be \$5 million. Management anticipates a long-term return on the pension plans assets of 6.75 percent and an annual increase in compensation of 5.32 percent, which are in line with current industry standards.

NET EARNINGS

*Years ended December 31, 2006 and 2005
(in millions of dollars, except per Trust Unit amounts)*

	2006	2005
Revenues	\$ 335.8	\$ 290.5
Less: operating expenses	119.0	102.7
Net operating income ⁽¹⁾	216.8	187.8
Deduct/(add):		
General and administrative	25.6	17.1
Management fee	1.0	1.2
Internalization of management contract	6.0	
Interest on long-term debt	24.9	23.9
Interest on convertible debentures	7.7	16.6
Depreciation and amortization	85.6	85.3
Accretion on asset retirement obligations	1.4	1.0
Future income tax reduction	(24.3)	(29.4)
Income and capital taxes		1.7
Net earnings	\$ 88.9	\$ 70.4
Net earnings per Trust Unit – basic and diluted	\$ 0.73	\$ 0.65

⁽¹⁾ Refer to "Non-GAAP Measures" on page 36.

Pembina's net earnings in 2006 were \$88.9 million, an increase of \$18.5 million from 2005. This increase is primarily due to increased total revenue from all three business segments (conventional, oil sands and midstream) of \$45.3 million offset by increases in total expenses of \$26.8 million. Increased operating expenses and general and administrative costs from 2005 to 2006 are countered by declines in interest paid on convertible debentures over the same period due to the conversion of a significant number of these securities over the year. Future income tax recoveries are \$5.1 million lower in 2006 than in 2005. As Pembina begins to utilize carry forward loss benefits in 2006 for taxable income in the subsidiaries, the future income tax liability increases causing the future income tax recoveries to decline over time.

DISTRIBUTED CASH ⁽¹⁾

<i>Years ended December 31, 2006 and 2005</i> <i>(in millions of dollars, except per Trust Unit amounts)</i>		
	2006	2005
Cash flow from operations	\$ 143.9	\$ 112.4
Add/(deduct):		
Maintenance capital expenditures	(3.4)	(3.9)
Employee future benefits expense	(4.6)	(3.4)
Employee future benefits contributions	9.0	13.3
Changes in non-cash working capital	4.8	5.4
Other	(1.5)	(0.4)
Distributable cash ⁽¹⁾	148.2	123.4
Increase in distribution reserve	(5.9)	(9.9)
Distributed cash ⁽¹⁾	\$ 142.3	\$ 113.5
Distributed cash per Trust Unit ⁽¹⁾	\$ 1.165	\$ 1.05
Diluted distributed cash per Trust Unit ⁽¹⁾	\$ 1.16	\$ 1.03

⁽¹⁾ Refer to "Non-GAAP Measures" on page 36.

The continued growth in distributed cash reflects the growth in both Pembina's asset base and the Unitholder base. Distributed cash rose by \$28.8 million, from \$113.5 million in 2005 to \$142.3 million in 2006, and is funded exclusively from operations. Distributed cash per Trust Unit increased from \$1.05 to \$1.165. Pembina's notional distribution reserve also grew, from \$15.1 million at the end of 2005 to \$21.0 million at the end of 2006. Pembina maintains this notional reserve to ensure ongoing stability over economic and industry cycles and to absorb the impact of material one-time events.

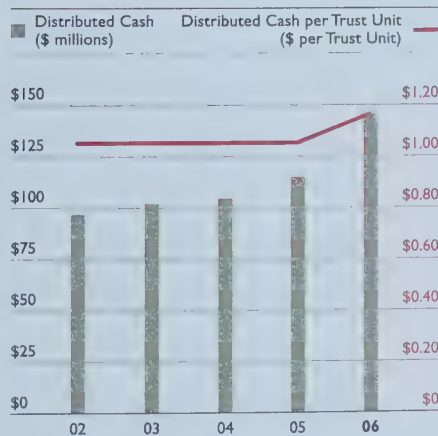
2006 CASH DISTRIBUTIONS TO UNITHOLDERS

Record Date	Payment Date	Taxable Other Income	Non-Taxable Amount	Total
January 31, 2006	February 15, 2006	\$0.072929	\$0.02207	\$0.0950
February 28, 2006	March 15, 2006	\$0.072929	\$0.02207	\$0.0950
March 31, 2006	April 14, 2006	\$0.072929	\$0.02207	\$0.0950
April 30, 2006	May 15, 2006	\$0.072929	\$0.02207	\$0.0950
May 31, 2006	June 15, 2006	\$0.072929	\$0.02207	\$0.0950
June 30, 2006	July 15, 2006	\$0.072929	\$0.02207	\$0.0950
July 31, 2006	August 15, 2006	\$0.072929	\$0.02207	\$0.0950
August 31, 2006	September 15, 2006	\$0.076768	\$0.02323	\$0.1000
September 30, 2006	October 13, 2006	\$0.076768	\$0.02323	\$0.1000
October 31, 2006	November 15, 2006	\$0.076768	\$0.02323	\$0.1000
November 30, 2006	December 15, 2006	\$0.076768	\$0.02323	\$0.1000
December 31, 2006	January 15, 2007	\$0.076768	\$0.02323	\$0.1000
Total 2006 Cash Distributions		\$0.89434	\$0.27066	\$1.1650

Of the total distribution of \$1.165 per Trust Unit declared in 2006, \$0.8943 per Trust Unit, or 77 percent, is taxable “other income” and \$0.2707 per Trust Unit, or 23 percent, is non-taxable. For most Unitholders, the non-taxable portion is considered a return of capital, which will reduce the cost base of each Trust Unit. Pembina projects that these proportions in 2007 will be approximately 90 percent of the total distribution per Trust Unit being taxable “other income” and the remaining 10 percent as non-taxable return of capital.

It is the Canada Revenue Agency’s administrative position that for Unitholders participating in the regular distribution reinvestment plan, the five percent discount at which additional units are acquired is considered income in the hands of the Unitholder. Further, we believe that the two percent premium earned under the premium distribution component of the DRIP will continue to be taxed as income.

Distributed Cash ⁽¹⁾



⁽¹⁾ Refer to “Non-GAAP Measures” on page 36.

Non-Resident Unitholders

Current domestic tax laws require a withholding tax from distribution income to non-residents of Canada at a rate of 25 percent. The withholding rate on income may be reduced pursuant to a bilateral income tax convention between Canada and the country in which the Unitholder is resident. For US residents, the withholding tax is reduced to 15 percent on trust income distributions. Such income is determined in accordance with the laws of Canada. It is important for the Unitholder to contact their broker or financial institution with regards to the amount of withholding tax that is being deducted, as it is our understanding that the withholding tax is determined by the financial institution where the units are held. Accordingly, we do not comment on the impact of relevant tax laws in various jurisdictions of residence but advise individuals to seek tax advice in this regard.

Pembina believes it should be considered a qualified foreign corporation and its distributions should be considered qualified dividends for US federal income tax purposes. Tax information relating to US residents is included on our website at www.pembina.com.

Our advice should not be interpreted as being specific tax advice and it is recommended that Unitholders or potential Unitholders consult their own legal or tax advisors as to their particular income tax consequences of holding Pembina Trust Units.

LIQUIDITY AND CAPITAL RESOURCES

(\$ millions)	2006	2005
Working capital (deficiency)	\$ (3.2)	\$ (4.8)
Variable rate debt		
Bank debt	10.7	115.8
Senior unsecured notes	75.0	75.0
Variable rate debt swapped to fixed	(60.0)	(85.0)
Total variable rate debt outstanding (average rate of 5.55%)	25.7	105.8
Fixed rate debt		
Senior unsecured notes	375.0	175.0
Senior secured notes	92.7	98.2
Variable rate debt swapped to fixed	60.0	85.0
Total fixed rate debt outstanding (average rate of 5.99%)	527.7	358.2
Convertible debentures	76.8	158.0
Total debt and debentures outstanding	630.2	622.1
Unutilized debt capacity	\$ 249.3	\$ 144.1

The Fund's cash flow from operations was \$143.9 million in 2006, compared to \$112.4 million in 2005. The increase in cash flow was primarily due to increased tariffs and the growth of midstream activities on certain sections of the conventional pipeline systems.

The Fund has increased its credit facilities to \$802.7 million, of which \$249.3 million was unutilized at year-end. The bank facilities include an unsecured revolving credit facility of \$230.0 million and a \$30.0 million operating line of credit (both floating rate debt). At December 31, 2006, \$10.7 million of the bank facilities were drawn. On July 24, 2006, the revolving credit facility and operating line of credit were renewed for a period of five years. There are no repayments due over the term. On September 29, 2006, Pembina closed a private placement of \$200 million of senior unsecured notes. The notes will mature September 30, 2021 and have a fixed interest rate of 5.58%. The proceeds were used to repay \$165 million of drawn facilities accumulated to that date and the excess was placed in short term deposit. Other debt includes \$93 million in fixed rate senior secured notes due 2017, \$175 million in fixed rate senior unsecured notes due 2014, \$75 million of floating rate senior unsecured notes due 2009 (refer to Note 7 to the Financial Statements). At December 31, 2006, Pembina had long-term debt of \$553.4 million compared to \$464.1 million in 2005. Repayments of interest and principal on Pembina bank indebtedness and senior notes ranks in priority to monthly cash distributions to be paid to Unitholders.

Pembina has sufficient debt capacity and operating cash flow to meet the construction commitments relating to the Horizon Project. Additional funding is expected to be obtained through the DRIP that is anticipated to raise close to \$100 million in 2007.

Management believes that the Fund has sufficient liquidity to meet its daily operational commitments and existing obligations. Principally, all of the Fund's accounts receivable are with customers in the oil and gas industry and under the terms of the Fund's shipping rules and regulations or pursuant to contracts. Balances are payable on the 25th day of the following month. This date coincides with the date on which oil and gas companies receive payment from industry partners and customers. Furthermore, on the conventional pipeline systems, the Fund has the right to take the shipper's oil in kind to settle any outstanding receivable balance. Therefore, the risk of non-collection is considered to be extremely low.

The Fund distributes all of its net cash flow, subject to retaining an appropriate distribution reserve, financing, maintenance capital, making repayments on debt and, if applicable, funding future removal and site restoration reserves. Aggregate debt of \$630.2 million at December 31, 2006 resulted in a ratio of total debt to total enterprise value of 24 percent. This compares to \$622.1 million and 25 percent, respectively, at the end of last year.

Development capital expenditures totaled \$165.5 million in 2006, an increase of \$90 million from 2005. A significant amount of this increase related to the Cheecham Lateral (\$37.8 million) and the initial construction costs for the Horizon Pipeline (\$49.4 million). Maintenance capital expenditures for 2006 totaled \$3.4 million, compared to \$3.9 million in 2005. Current significant capital expenditure commitments include \$183 million of the \$350 million total for the construction of the Horizon Pipeline which is expected to be incurred in 2007 (refer to "Contractual Obligations" below).

Credit rating agency ratings on the Pembina Pipeline Income Fund and Pembina Pipeline Corporation were confirmed during 2006. The STA-2 (low) stability rating and 'BBB high' senior secured and 'BBB' senior unsecured debt rating assigned by the Dominion Bond Rating Services ("DBRS") and the SR-2 stability rating, 'BBB' long term corporate credit with a stable outlook, 'BBB plus' senior secured and 'BBB' senior unsecured debt rating by Standard and Poor's ("S&P") are current. The DBRS stability rating system measures the volatility and sustainability of distributions per Trust Unit on a rating scale STA-1 to STA-7 (STA-1 being the highest rating possible). STA-2 rated funds are considered to have very good distribution per Trust Unit stability and sustainability. The S&P rating system rates distributable cash on a scale of SR-1 to SR-7 with SR-2 rated funds considered to have very high stability. Debt securities rated BBB exhibit adequate protection parameters. These ratings recognize the Fund's stable assets profile and financial results, as well as the stability and sustainability of the per Trust Unit distribution.

CONTRACTUAL OBLIGATIONS

(\$ millions)	Payments Due by Period				
	<i>Total</i>	<i>Less than 1 year</i>	<i>1 – 3 years</i>	<i>4 – 5 years</i>	<i>After 5 years</i>
Office and vehicle leases	\$ 14.7	\$ 3.3	\$ 5.1	\$ 3.6	\$ 2.7
Long-term debt	553.4	6.0	95.7	27.3	424.4
Convertible debentures	76.8	15.1		61.7	
Construction commitments	300.6	175.0	125.6		
Total contractual obligations	\$ 945.5	\$ 199.4	\$ 226.4	\$ 92.6	\$ 427.1

Pembina is contractually committed to the construction and the operation of the Horizon Pipeline. Construction on the Horizon Pipeline, which is currently projected to cost \$350 million, commenced in 2006, with operations slated to commence in mid-2008. The expenditures are expected to be funded from long-term borrowings and utilization of the Fund's DRIP.

On July 24, 2006, Pembina renewed its revolving bank facilities for a five-year term to July 24, 2011. These facilities were previously renewed annually, therefore drawn amounts under the facilities of \$10.7 million previously payable in 1-3 years are now repayable in 4-5 years, should the credit facilities not be renewed (refer to Note 7 to the Financial Statements).

CRITICAL ACCOUNTING ESTIMATES

Management is required to make judgments, assumptions and estimates in the applications of generally accepted accounting principles that have a significant impact on the Fund. Readers are referred to Note 2 of the audited Consolidated Financial Statements as at and for the year ended December 31, 2006 for a description of the Fund's significant accounting policies. The following discussion outlines certain items for which critical estimates must be made in preparing those statements.

Depreciation

Pipeline assets and facilities are generally depreciated using the declining balance method at rates ranging from three percent to ten percent per annum. The AOSPL and ethylene storage assets are depreciated using the straight-line method at rates ranging from three to five percent. These rates have been established to depreciate the original asset and facility costs over the economic lives or contractual duration of the related assets. Estimates of the economic life of various pipeline systems have been based on projecting future throughputs using historic oil and gas production decline rates and throughputs. Management has assumed that these historical trends will continue and that the increased tolls required to offset these decline rates will also remain competitive. However, the actual useful life of the assets may differ from management's original estimate due to higher decline rates, non-competitive tolls and customer requirements. A resultant change in depreciation expense would have a corresponding effect on the net earnings of the Fund.

Effective January 1, 2007, the Fund has revised its estimate of the future useful life of its conventional pipeline assets. Based on recent expansion initiatives in the industry and the oil reserve life natural decline patterns of the pipeline assets, management believes that the estimated useful life of the assets will be between 25-30 years depending on the pipeline system and expected throughputs. Management also believes that this change in useful life would be better reflected using the straight line method of accounting for depreciation. The Fund has commenced depreciating the conventional oil pipeline assets and facilities over 25 to 30 years on a straight line basis. The impact of this change in 2007 is expected to be a decrease in depreciation expense and an increase in net earnings of approximately \$6 million.

Goodwill

Goodwill, which represents the estimated tax costs related to the difference between the fair value and the tax basis of acquired assets, is assessed by the Fund for impairment at least annually. Management estimates the fair value of these assets by discounting the projected future cash flows generated by these assets using the Fund's weighted average cost of capital. If it is determined that the fair value of the future cash flows is less than the book value of the assets at the time of the assessment, an impairment amount would be determined by deducting the fair value of the cash flows from the book values and applying it against the book balance of goodwill. To date, there has been no impairment of these goodwill values.

Asset Retirement Obligations

Management recognizes the fair value of an estimated asset retirement obligation in the period in which it is incurred, when an estimate can reasonably be made and industry practice or regulation requires removal of the asset upon retirement. The estimated fair value is recorded as a long-term liability with a corresponding increase in the carrying value of the property, plant and equipment. The liability is accumulated over time through charges to period earnings and is reduced by the actual costs incurred upon settlement. Any difference between the actual cost incurred upon settlement and the recorded liability is recognized as a gain or loss in the Fund's earnings.

Asset Impairment

Management regularly reviews property, plant, equipment and other intangibles to determine if circumstances indicate impairment in the carrying value or changes in the estimated useful life of the asset. Impairment is generally considered to have occurred when the fair value of the future cash flows that are to be generated by an asset are less than the carrying value of that asset. If impairment has occurred, an impairment charge to earnings is recognized in the amount that the carrying value of the asset exceeds its fair value. To date, there has been no impairment in the carrying value of our assets.

Pensions and other Post Retirement Benefits

The Fund accrues for its obligations under its employee pension plans and the related costs, net of pension plan assets. The costs of the pension plans and other retirement benefits is actuarially determined using the projected benefit method based on the length of service and reflects management's best estimate of expected pension plan investment performance, salary escalation and retirement ages of employees. The return on the pension plan assets is based on the fair value of those assets. The obligation is discounted using a market interest rate at the beginning of the year on high quality corporate debt instruments. The pension expense includes the costs of pension benefits earned during the current year, the interest cost on pension obligations, the return on pension plan assets, the amortization of the net transitional obligation, the amortization of adjustments arising from pension plan amendments and the amortization of the excess of the net actuarial gain or loss over 10 percent of the greater of the benefit obligation and the fair value of plan assets. The amortization period covers the expected average remaining services lives of employees covered by the pension plan. The actual costs and projections may differ from management's estimates and any change would have a corresponding effect in the net earnings of the Fund.

CHANGES IN ACCOUNTING PRINCIPLES AND PRACTICES

There were no changes in Pembina's principles or practices that affected the disclosure of or the accounting for its operations for the year ended December 31, 2006.

New accounting standards will be in effect for hedge accounting, recognition and measurement of financial instruments and disclosure of comprehensive income. These standards will apply to the Fund effective January 1, 2007 resulting in unrealized gains or losses being recognized in comprehensive income within Unitholders' equity. To the extent that certain transactions do not qualify for hedge accounting, unrealized gains and losses will be charged to earnings in the current period. The impact of this change, had it been effective for 2006, would have been the recording of a \$7.5 million unrealized gain relating to power hedges and interest rate swaps to comprehensive income.

TRUST UNIT INFORMATION

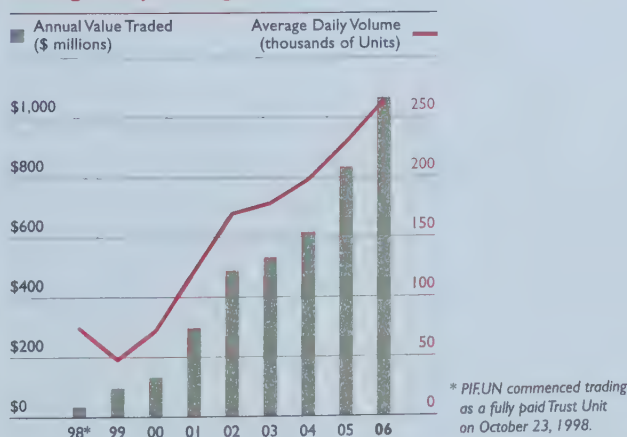
(in thousands of dollars, except where noted)

	March 1, 2007 ⁽¹⁾	December 31, 2006	December 31, 2005
Trading volume and value			
Total volume (Trust Units)	10,578,551	64,731,227	57,295,154
Average daily volume (Trust Units)	246,013	257,893	227,362
Value traded	\$ 169,486	\$ 1,062,344	\$ 827,360
Trust Units outstanding at year end (Trust Units)	127,589,378	126,217,888	113,897,002
Year end unit trading price (\$/Unit)	\$ 16.02	\$ 15.83	\$ 15.95
Market value (for December 31)			
Trust Units	\$ 2,043,976	\$ 1,998,029	\$ 1,816,657
8.25% convertible debentures ⁽²⁾			14,336
7.50% convertible debentures ⁽³⁾	22,009	23,406	37,308
7.35% convertible debentures ⁽⁴⁾	80,659	80,307	167,884
Market capitalization	\$ 2,146,644	\$ 2,101,742	\$ 2,036,185
Senior debt	571,000	553,369	464,062
Total enterprise value	\$ 2,717,644	\$ 2,655,111	\$ 2,500,247

⁽¹⁾ Based on 43 trading days from January 1 to March 1, 2007 inclusive.⁽²⁾ Matured March 31, 2006⁽³⁾ \$15.6 million principal amount of 7.50% convertible debentures outstanding at a market price of \$149.74 at December 31, 2006.⁽⁴⁾ \$64.4 million principal amount of 7.35% convertible debentures outstanding at a market price of \$124.64 at December 31, 2006.

The Fund's Trust Units, along with each of the two series of convertible debentures, are publicly traded on the Toronto Stock Exchange. The total market value of the Fund's outstanding securities was \$2.1 billion at December 31, 2006. Issued and outstanding Trust Units of the Fund rose to 126.2 million by the end of 2006, an increase of 12.3 million from 2005. During 2006, 7.1 million Trust Units were issued through debenture conversions, 4.9 million Trust Units were issued under the DRIP (which is described below) and 0.3 million Trust Units were issued upon the exercise of Trust Unit options. Pembina's ratio of total debt to total enterprise value declined slightly from 25 percent at the end of 2005 to 24 percent as at December 31, 2006. Management remains satisfied that the leverage currently employed in Pembina's capital structure is sufficient and appropriate given the characteristics and operations of the underlying asset base.

Annual Value Traded and Average Daily Trading Volume



Pembina's DRIP Plan raised \$76.6 million in 2006, compared to \$31.3 million in 2005. Since its launch in 2003, the plan has attracted significant Unitholder interest and has raised \$166.7 million. The Fund views the DRIP Plan as a dependable, cost effective source of incremental financing, and uses the proceeds to fund its capital program. The 12.3 million Trust Units issued through the DRIP Plan since the Plan's inception represent less than 10 percent of the total issued and outstanding units at the end of the year. In 2007, Pembina has the potential to raise close to \$100 million based upon current participation levels of the DRIP plan, but will maintain the flexibility to alter this target, dependent on the actual participation and capital funding requirements during the year.

Data provided by our transfer agent indicates that non-resident holdings in the Fund totaled 16.5 percent at January 31, 2007. This level is within the 49 percent restriction on non-resident ownership in the Fund imposed by Pembina's Declaration of Trust and is consistent with guidelines under the Income Tax Act (Canada).

RISK FACTORS

Following is a summary of the primary risk factors identified by management that could potentially have a material impact on the financial results and operations of the Fund. For a full discussion of these and other risk factors affecting the business and operation of the Fund and its operating subsidiaries, readers are referred to the Fund's Annual Information Form, an electronic copy of which is available through the internet on Pembina's website at www.pembina.com or on the Fund's SEDAR profile at www.sedar.com.

Distributions

The Fund has announced its distribution objective for 2007 of \$1.32 per Trust Unit, an approximate 13 percent increase over the 2006 annual distribution. Management believes that continued robust operating results produced by Pembina's conventional assets, coupled with growth in its oil sands and midstream business segments, will continue to generate significant and sustainable cash flow that will support the new level of cash distribution. However, there can be no assurance that this level of distribution will be achieved. The actual amount of distributions paid to Unitholders will depend upon numerous factors including, but not limited to, operating cash flow, general and administrative costs, debt repayment and service costs, taxes, capital expenditures, reclamation reserves – if any, and working capital requirements. Payments by Pembina, the principal operating subsidiary, to the Fund may be delayed or reduced by restrictions imposed by lenders, disruptions in services or the ability of Pembina, under certain circumstances, to delay interest payments on its senior secured notes for up to twelve months.

Debt Service

At the end of 2006, Pembina had exposure to floating interest rates on \$25.7 million in debt. A 0.25 percent change in short-term interest rates would have an annualized impact of \$0.1 million on net cash flows. Variations in interest rates and scheduled principal repayments, if required under the terms of the banking agreements as described in Note 7 to the Fund's 2006 Consolidated Financial Statements, could result in significant changes in the amounts required to be applied to debt service before payment of any amounts by the operating subsidiaries to the Fund. Certain covenants in the agreements with the lenders may also limit payments by the operating subsidiaries to the Fund. Although it is believed that the existing credit facilities are sufficient, there can be no assurance that the amount will be adequate for the financial obligations of Pembina or that additional funds can be obtained. Holders of senior secured notes have been provided with security over substantially all of the assets of Pembina. If Pembina becomes unable to pay its debt service charges or otherwise commits an event of default, such as bankruptcy, the lenders will rank senior to the Fund in respect of payments made by the operating subsidiaries on securities or unsecured promissory notes that are held by the Fund. As a result, cash distributions from the Fund to Unitholders would be adversely affected by such circumstances.

Capital Resources

Future expansions of the pipeline assets, acquisitions and other capital expenditures will be financed from sources such as cash generated from operations, borrowing or issuance of additional Trust Units or other securities of the Fund or Pembina. There can be no assurance that sufficient capital will be available on terms that would be considered as acceptable to the Fund to support these expansions or other required capital expenditures. Should external sources of capital become limited or unavailable, Pembina's ability to make the necessary or desirable capital expenditures could be severely restricted. To the extent Pembina is required to use cash flow to finance capital expenditures the level of cash distributed to Unitholders could be reduced.

Reserve Replacement and Throughput

Tariff revenues are based upon a variety of tolling arrangements, including deliver or pay contracts, costs of service arrangements and market-based tolls. As a result, certain tariff revenues are heavily dependent upon throughput levels. Future throughput on Pembina's conventional crude oil and NGL pipelines and replacement of oil and gas reserves in service areas will be dependent upon the success of producers operating in those areas exploiting their existing reserve bases as well as exploring for and developing additional reserves. Without reserve additions or expansion of the service areas, throughput on the pipelines will decline over time as reserves are depleted. In addition, as reserves are depleted or if the product prices for crude oil, condensate and NGLs decline, production costs may increase relative to the remaining value of the reserves in place, causing producers to shut-in production, seek out lower cost alternatives for transportation to market or pressure Pembina to reduce the effective tariffs. The oil and natural gas price volatility that the industry has experienced over the past number of years is due to supply and demand factors, including weather and general economic conditions as well as economic, political and other conditions in other oil and natural gas producing regions, not necessarily located in western Canada, all of which are beyond the Fund's control.

Environmental Costs and Liabilities

Pembina is subject to Canadian Federal and Alberta and British Columbia Provincial laws and regulations relating to environmental protection and operational safety. While Pembina believes that the current operation of its pipeline systems is in compliance with all applicable environmental and safety regulations, there can be no assurance that substantial cost or liability will not be incurred. Moreover, it is possible that other developments, such as increasingly strict environmental and safety laws, regulation and enforcement or claims for damages to persons or property resulting from Pembina's operations, could result in significant costs and liabilities to Pembina. If Pembina were not able to recover the resulting costs through insurance or tariffs, cash flow available to make cash distributions to Unitholders or to service obligations under the convertible debentures would be adversely affected. While Pembina maintains insurance in respect of damage caused by seepage or pollution in an amount it considers prudent and in accordance with industry standards, certain provisions of this insurance may limit its availability in respect of certain occurrences unless they are discovered within fixed time periods. These periods can range from 72 hours to seven days. If Pembina is unaware of or is unable to locate the problem within the relevant time period insurance coverage may not be available. However, Pembina is of the opinion that it has adequate leak detection systems in place to detect and monitor a significant spill of product.

Competition to the Pipeline Operations

Pembina competes with other pipelines in its service areas, other transporters of crude oil and NGLs, and other midstream businesses. The introduction of competing transportation alternatives into Pembina's service areas could potentially have the impact of limiting Pembina's ability to adjust tolls as it may deem necessary. Additionally, potential pricing differentials on the components of NGLs may result in these components being transported by competing gas pipelines. Pembina believes that it is prepared for and determined to meet these existing and potential competitive pressures.

Regulation

Legislation in Alberta and British Columbia exists to ensure that producers have fair and reasonable opportunities to produce, transport, process and market their reserves. In Alberta and British Columbia, the Alberta Energy and Utilities Board and the British Columbia Utilities Commission respectively, may, upon application and following a hearing (and in Alberta with the approval of the Lieutenant Governor in council), declare the operator of a pipeline a common carrier of oil or natural gas and, as well, must not discriminate between producers who seek access to the pipeline. Producers and shippers may also apply to the regulatory authorities for a review of tariffs if they prove the tariffs are not just and reasonable. Applications by producers to have a pipeline operator declared a common carrier are usually accompanied with an application to have tariffs set by the regulatory authorities. The extent to which regulatory authorities in such instances can override existing transportation or processing contracts has not been fully decided. The potential for direct regulation of tolls, other than for the provincially regulated BC gathering pipelines, while considered remote, could result in toll levels that are not considered fair and reasonable by Pembina and could impair the economic operation of such regulated pipeline systems.

Pipeline Abandonment Costs

Pembina is responsible for compliance with all applicable laws and regulations regarding the abandonment of its pipeline assets at the end of their economic life, and such abandonment costs may be substantial. The proceeds of the disposition of certain assets associated with Pembina's pipeline systems including, in respect of certain pipeline systems, linefill would be available to offset abandonment costs. However, it is not possible to definitively predict abandonment costs since they will be a function of regulatory requirements at the time and the value of Pembina's assets, including linefill, may then be more or less than the abandonment costs. Pembina may, in the future, determine it prudent or be required by applicable laws or regulations to establish and fund one or more reclamation funds to provide for payment of future abandonment costs. Such reserves could decrease cash flow available for distribution to Unitholders and to service obligations under the Convertible Debentures.

Operational Hazards

Pembina's operations are subject to the customary hazards of the pipeline transportation business. The operations of Pembina's pipelines could be disrupted by natural disasters or other events beyond Pembina's control. A casualty occurrence could result in the loss of equipment or life as well as injury and property damage. Pembina carries insurance coverage with respect to some, but not all, casualty occurrences in amounts customary for similar business operations, which coverage may not be sufficient to compensate for all casualty occurrences.

Credit Risk

Pembina is subject to credit risk arising out of both its pipeline and midstream operations. A majority of Pembina's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risk. Historically, Pembina has collected its accounts receivable in full. However, it maintains lien rights on the oil and NGLs that are in Pembina's custody during the transportation of such products on the pipeline as well as the right of offset for single shipper operations. It also actively reviews credit worthiness of all new shippers on its systems and regularly reviews the credit status of current shippers.

Pricing

Terminalling, storage and hub services are dependent upon the ability of Pembina to take advantage of pricing differentials for various qualitative factors in the crude oil and NGL streams. These differentials are based primarily on product density and sulphur content and are subject to normal market forces. Pembina actively monitors the market conditions and the stream content and quality to ensure that it is not subject to undue risk or exposure should there be a significant change in either price or quality factors.

SELECTED QUARTERLY FINANCIAL INFORMATION

	2006				2005			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues (in thousands of dollars, except where noted)	\$ 88,062	\$ 85,326	\$ 80,924	\$ 81,506	\$ 77,644	\$ 73,100	\$ 70,120	\$ 69,658
Operating expenses	32,534	29,171	27,733	29,572	28,520	24,480	24,763	24,973
EBITDA ⁽¹⁾	49,626	50,261	39,554	44,732	45,027	44,558	40,207	39,738
Net earnings	27,231	24,563	16,940	20,151	21,705	19,778	14,373	14,553
Net earnings per Trust Unit (\$/Unit)								
Basic and diluted	0.22	0.20	0.14	0.17	0.19	0.18	0.14	0.14
Distributed cash ⁽¹⁾	37,687	36,461	34,567	33,570	29,667	29,099	27,474	27,242
Distributed cash per Trust Unit (\$/Unit) ⁽¹⁾								
Basic	0.3000	0.2950	0.2850	0.2850	0.2625	0.2625	0.2625	0.2625
Diluted	0.2956	0.2902	0.2803	0.2786	0.2526	0.2599	0.2556	0.2548
Trust Units outstanding (thousands)								
Weighted average (basic)	125,625	123,576	121,289	117,784	113,019	110,845	104,660	103,776
Weighted Average (diluted)	132,789	131,502	130,036	129,692	128,254	128,632	126,104	125,679
End of Period	126,218	124,262	122,030	119,816	113,897	111,938	104,949	104,127

⁽¹⁾ Refer to "Non-GAAP measures" on page 36.

Pembina's stable operations typically produce limited variability in quarterly results. However, continued growth in Pembina's underlying asset base and significant growth in the midstream business has resulted in increased revenues, expenses and cash flows over the last eight quarters. Variations in this trend result from one-time events and expected seasonal factors which impact pipeline receipts and operating expenses, occurring most frequently during the second quarter of each year. Such events and factors include, but are not limited to, regularly scheduled facilities maintenance, road bans and weather-related impact on receipts and spending patterns.

FOURTH QUARTER RESULTS

Net earnings for the fourth quarter were \$27.2 million compared with \$21.7 million in 2005. The increase in net earnings reflects an increase in earnings before tax of \$4.0 million due to the record operating performance of all business segments and a higher future income tax reduction that was impacted by the utilization of tax pools.

Cash flow from operations for the fourth quarter was \$35.1 million, an increase of \$12.4 million from 2005. The increase is primarily due to the increased volumes transported on all systems, various tariff increases implemented during 2006 and the resulting increase in revenues. Cash from financing activities in the fourth quarter consisted of borrowings under the bank facilities and the issuance of Trust Units under the DRIP to finance the Cheecham Lateral and the Horizon Pipeline offset by distributions to Unitholders. Cash used in investing activities increased from \$27.0 million in 2005 to \$60.5 million in 2006 as a result of the construction projects.

ADDITIONAL INFORMATION

Additional information relating to Pembina Pipeline Income Fund, including the Fund's 2006 Annual Information Form and financial statements, can be found on the Fund's profile on the SEDAR website at www.sedar.com or at www.pembina.com.

MANAGEMENT'S RESPONSIBILITY

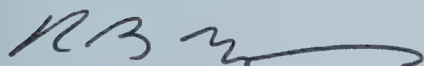
The consolidated financial statements of Pembina Pipeline Income Fund (the "Fund") are the responsibility of Pembina's management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgments, where appropriate.

Management is responsible for the reliability and integrity of the financial statements, the notes to the financial statements, and other financial information contained in this report. In the preparation of these financial statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Board of Directors of Pembina Pipeline Corporation (the "Board") is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising their responsibilities through the Audit Committee, which is composed of three non-management directors. The Audit Committee meets periodically with management and the auditors to satisfy itself that management's responsibilities are properly discharged, to review the financial statements and to recommend approval of the financial statements to the Board.

KPMG LLP, the independent auditors, have audited the Fund's financial statements in accordance with Canadian generally accepted auditing standards and their report follows. The independent auditors have full and unrestricted access to the Audit Committee to discuss their audit and their related findings.



Robert B. Michaleski
President and Chief Executive Officer
Pembina Pipeline Corporation



Peter D. Robertson
Vice President Finance and
Chief Financial Officer
Pembina Pipeline Corporation

March 8, 2007

AUDITORS' REPORT TO THE UNITHOLDERS

We have audited the consolidated balance sheets of Pembina Pipeline Income Fund as at December 31, 2006 and 2005 and the consolidated statements of earnings and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

*Chartered Accountants
Calgary, Canada*

March 7, 2007

CONSOLIDATED BALANCE SHEETS

December 31, 2006 and 2005 (in thousands of dollars)

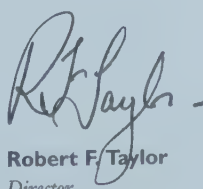
	2006	2005
ASSETS		
Current assets:		
Cash	\$ 1,861	\$
Accounts receivable	44,947	31,012
	46,808	31,012
Property, plant and equipment (Note 5)	1,257,729	1,161,691
Goodwill and other (Note 6)	371,667	366,416
	\$ 1,676,204	\$ 1,559,119
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness	\$	\$ 7,311
Accounts payable and accrued liabilities	37,411	18,489
Distributions payable to Unitholders	12,622	9,966
Current portion of long-term debt (Note 7)	5,973	7,968
Current portion of convertible debentures (Note 8)	15,133	8,000
	71,139	51,734
Long-term debt (Note 7)	547,396	456,094
Convertible debentures (Note 8)	61,679	150,040
Asset retirement obligations (Note 10)	29,889	19,716
Future income taxes (Note 11)	113,617	137,923
	823,720	815,507
Unitholders' equity:		
Trust Units (Note 12)	1,235,809	1,073,537
Deficit	(383,325)	(329,925)
	852,484	743,612
Commitments (Note 17)		
	\$ 1,676,204	\$ 1,559,119

On behalf of the Board of Pembina Pipeline Corporation:



Lorne B. Gordon
Director

March 8, 2007



Robert F. Taylor
Director

See accompanying notes

CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT

<i>Years ended December 31, 2006 and 2005 (in thousands of dollars, except per Trust Unit amounts)</i>	<i>2006</i>	<i>2005</i>
Revenues:		
Conventional pipelines	\$ 222,957	\$ 204,331
Oil sands infrastructure	62,120	55,472
Midstream business	50,741	30,719
	335,818	290,522
Expenses:		
Operations	119,010	102,736
General and administrative	25,608	17,091
Management fee	1,027	1,165
Depreciation and amortization (Note 5, 6)	85,619	85,270
Accretion on asset retirement obligations (Note 10)	1,395	1,015
Internalization of management contract (Note 3)	6,000	
	238,659	207,277
Earnings before interest and taxes	97,159	83,245
Interest on long-term debt (Note 7)	(24,880)	(23,877)
Interest on convertible debentures (Note 8)	(7,700)	(16,599)
Earnings before taxes	64,579	42,769
Income and capital taxes (reduction) (Note 11)	(24,306)	(27,640)
Net earnings	88,885	70,409
Deficit, beginning of year	(329,925)	(286,852)
Distributed cash	(142,285)	(113,482)
Deficit, end of year	\$ (383,325)	\$ (329,925)
Earnings per Trust Unit – basic and diluted (Note 14)	\$ 0.73	\$ 0.65

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>Years ended December 31, 2006 and 2005 (in thousands of dollars)</i>	<i>2006</i>	<i>2005</i>
Cash provided by (used in):		
Operating activities:		
Net earnings	\$ 88,885	\$ 70,409
Items not involving cash:		
Depreciation and amortization	85,619	85,270
Accretion on asset retirement obligations	1,395	1,015
Future income tax reduction	(24,306)	(29,377)
Employee future benefits expense	4,620	3,383
Trust Unit based compensation expense	1,135	
Other	363	362
Employee future benefits contributions	(9,000)	(13,349)
Changes in non-cash working capital (Note 15)	(4,851)	(5,353)
Cash flow from operations	143,860	112,360
Financing activities:		
Bank borrowings	59,862	31,438
Issue of senior notes (net of issue costs)	194,842	
Repayment of long-term debt	(165,000)	
Repayment of senior secured notes	(5,555)	(1,764)
Issue of Trust Units on exercise of options (Note 12)	3,271	6,762
Issue of Trust Units under Distribution Reinvestment Plan (Note 12)	76,639	31,250
Distributions to Unitholders – current year	(129,664)	(103,516)
Distributions to Unitholders – prior year	(9,966)	(9,007)
	24,429	(44,837)
Investing activities:		
Capital expenditures	(168,955)	(79,457)
Changes in non-cash working capital (Note 15)	9,838	7,594
	(159,117)	(71,863)
Change in cash	9,172	(4,340)
Bank indebtedness, beginning of year	(7,311)	(2,971)
Cash (bank indebtedness), end of year	\$ 1,861	\$ (7,311)
Other cash disclosures:		
Interest on long-term debt paid	\$ (25,698)	\$ (25,484)
Interest on convertible debentures paid	\$ (6,740)	\$ (15,606)
Interest capitalized	\$ (4,014)	\$ (2,100)
Taxes paid	\$ (419)	\$ (928)

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2006 and 2005 (tabular amounts stated in thousands of dollars, except per Trust Unit amounts)

Note 1. Structure of the Fund:

Pembina Pipeline Income Fund (the "Fund") is an open-ended, single purpose trust formed under the laws of the Province of Alberta pursuant to a declaration of trust. The Fund commenced operations in October 1997 when it acquired all of the shares and unsecured promissory notes of Pembina Pipeline Corporation ("Pembina") which owns or has interests in pipelines and related facilities to deliver crude oil, condensate and natural gas liquids in Alberta and British Columbia, and other energy related infrastructure.

The Fund makes monthly distributions of its distributable cash to Unitholders of record on the last day of each calendar month. The amount of the distributions per Trust Unit are equal to the pro-rata share of interest income (and in certain circumstances repayment of principal) on the Pembina notes and dividends (and in certain circumstances repayment of capital) on the Pembina shares less expenses of the Fund and cash redemptions of Trust Units.

Pursuant to the Fund's distribution policy, it will pay interest, principal, dividends and capital, subject to retaining an appropriate distribution reserve, satisfying its financing covenants, making loan repayments, and funding future removal and site restoration expenditures. Pembina's maintenance capital expenditures are expected to be funded from available cash while ongoing development, expansions and acquisitions of pipeline and other assets and related facilities are expected to be funded primarily through borrowings or issuance of additional Trust Units.

Note 2. Significant Accounting Policies:

The preparation of these consolidated financial statements requires the use of estimates and assumptions which have been made using careful judgment. In the opinion of management, these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of Canadian generally accepted accounting principles for non rate-regulated entities. Certain of the prior year's comparative figures have been reclassified to conform with the current year's presentation.

Regulation

The pipeline systems in Alberta and British Columbia are subject to the respective provincial utilities board authority over matters such as construction, rates and rate setting agreements with customers. Pipelines crossing provincial borders are also subject to the authority of the National Energy Board. The Alberta pipelines generally operate under market tolling arrangements and the utilities board will not review rates unless it receives a complaint. Rates on the British Columbia pipelines require provincial utility board approval and certain period costs are deferred and recovered in tolls over a five year period as directed by the regulator.

Principles of consolidation

These consolidated financial statements include the accounts of the Fund, its wholly owned subsidiary companies and partnerships, and its proportionate share of the accounts of joint ventures and partnerships. The Fund does not utilize off balance sheet arrangements with unconsolidated entities.

Cash and cash equivalents

Short term investments with original maturities of ninety days or less are considered to be cash equivalents and are recorded at cost which approximates market value.

Property, plant and equipment

Development capital expenditures (upgrades and expansions) and maintenance capital expenditures (major renewals and improvements) are capitalized at cost. Maintenance and repair costs are expensed as incurred. Interest is capitalized during the construction phase of large expansions.

Pipeline assets and facilities are generally depreciated using the straight line or declining balance method at rates ranging from 3% to 10% per annum. AOSPL and storage assets and facilities are depreciated using the straight line method at annual rates ranging from 3% to 5%. These rates are established to depreciate original costs over the economic lives or contractual duration of the related assets.

Goodwill

Goodwill represents the excess, if any, of the consideration paid over the fair value of identifiable assets and liabilities acquired in a business combination, and often arises as a result of the recognition of a future income tax liability related to the difference between the fair value and the tax base of acquired assets. Goodwill is not amortized but, at a minimum, is subject to an annual impairment test and an impairment loss is recognized when the carrying amount of goodwill exceeds its fair value. The measurement methodology used to evaluate whether there is a permanent impairment in the value of goodwill is based on discounted cash flows.

Other intangibles

Other intangibles acquired individually or as part of a group of assets are recognized and measured at cost. Other intangibles are amortized using the straight line method over the 20-year contractual duration of the related asset.

Impairment of long-lived assets

Management reviews property, plant and equipment and other intangibles to determine if circumstances indicate impairment in the carrying value or changes in the estimated useful life of the asset. If impairment has occurred, an impairment charge to earnings is recognized for the amount the carrying value of the asset exceeds its estimated fair value based on discounted future cash flows.

Employee pension plans

A subsidiary of the Fund maintains a non-contributory defined benefit pension plan covering its employees along with an unfunded supplemental retirement plan for those employees affected by the Canada Revenue Agency maximum pension limits. The cost of pension benefits earned by employees in the defined benefit plans are charged to earnings as services are rendered using the projected benefit method pro-rated on service. The cost of the defined benefit plans reflects management's estimate of the rate of return on pension plan assets, salary escalations, mortality and other factors affecting the payments of future benefits. Adjustments arising out of plan amendments, changes in assumptions and experienced gains and losses are normally amortized, using the corridor method, over the expected remaining average service life of the employee group. Under the corridor method, amortization is recorded only if the accumulated net actuarial gains or losses exceed 10% of the greater of the accrued benefit obligation and the value of the plan assets. The market value of assets is used for all calculations.

Asset retirement obligations

The fair value of the estimated asset retirement obligations are recognized in the period in which they are incurred, when an estimate can reasonably be made and industry practice or regulation requires removal of the asset upon retirement. The fair value is recorded as a long term liability with a corresponding increase in the carrying value of the property, plant and equipment. The liability is accumulated over time through charges to earnings and is reduced by the actual costs incurred upon settlement. Any difference between the actual costs incurred upon settlement and the recorded liability is recognized as a gain or loss in earnings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Significant Accounting Policies: (continued)*Income taxes*

Income taxes, based on current legislation, are recorded on the liability method of accounting as the subsidiaries are projected to be taxable in the future. Income tax obligations relating to distributions from the Fund are the obligations of the Unitholders. Accordingly, no provision for income taxes on the earnings of the Fund have been made.

Future income tax liabilities of subsidiaries are recognized on acquisitions and reflect the difference between the book value and tax value of capital assets at future statutory income tax rates. On recognition, an equivalent amount is allocated to property, plant and equipment or, if the consideration paid approximates the estimated depreciated replacement cost, then the allocation is to goodwill. The future income tax reduction represents the change in these amounts and other timing differences during the year.

Revenue recognition

Pipeline transportation revenues are recorded when the services have been provided. For rate or contractually regulated pipeline operations, revenue is recognized in a manner that is consistent with the underlying rate design as mandated by agreement or regulatory authority.

Certain pipelines have been designated single-shipper lines where producers must either sell their product at the inlet point or sell their product at the inlet point and repurchase it at the delivery point for the inlet price paid plus an agreed-upon differential on a pre-arranged basis. The buy/sell transactions are recorded when the services have been provided and recognized on a net basis in the statement of earnings. Product sales are recognized when the product is delivered to a customer.

Storage revenue is recognized when the service is provided consistent with the rate contracted with the customer.

Unit based compensation

The Fund uses the fair value method to account for the compensation cost of options granted pursuant to the unit option plan described in Note 13. Under the fair value method, the options are measured at fair value at the grant date and the cost is recognized in earnings over the vesting period. Consideration paid on exercise of the options is credited to Unitholders' equity.

The Fund has a restricted Trust Unit plan as described in Note 13. As participants in this plan are entitled to a cash payment on a fixed vesting date, the Fund is using the intrinsic value method to account for the compensation cost of this plan. Changes in intrinsic value result in a change in the measurement of compensation cost. As awards vest at the end of the vesting period, compensation cost is recognized as incurred.

Risk management

The Fund uses derivative financial instruments to manage exposure to interest rates, power costs and crude oil or natural gas liquids. The Fund does not use financial instruments for trading or speculative purposes.

The Fund formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Fund also assesses, both at inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Unrealized gains and losses on derivative instruments that qualify for hedge accounting are not recorded. When realized, the gains and losses are charged to net earnings. Gains and losses on derivatives that are not designated as, or do not qualify as, part of hedging relationships, and any gains or losses after the termination of hedging relationships are charged to earnings as they arise.

Note 3. Internalization of Management Contract:

Effective June 30, 2006, the Fund acquired all of the outstanding common shares of Pembina Management Inc. (Manager), the manager of the Fund. Total consideration for the transaction consisted of an initial cash payment of \$6 million and a contingent deferred payment payable in 2009 that is linked to future growth in distributable cash per Trust Unit of the Fund. If the future cumulative distributable cash in the period from January 1, 2006, to December 31, 2008 does not exceed \$3.42 per Trust Unit (\$1.14 per Trust Unit per year), the deferred amount is zero. Every approximate 10 cent per Trust Unit increase in cumulative distributable cash over \$3.42 per Trust Unit results in a \$1 million increase in purchase price to a maximum of \$15 million, which is converted into notional Trust Units based on the weighted-average trading price of the Trust Units for the 20 trading days prior to June 30, 2006 of \$15.87 (the closing price). The purchase price will also be adjusted by the distributions payable on the notional Trust Units for the period January 1, 2006 to December 31, 2008, and the change in the value of the Fund's Trust Units from the closing price. No further payments under the share purchase agreement are payable until 2009, however assuming the 2007 and 2008 distributable cash is similar to 2006, the potential deferred payment would be \$2.2 million.

Prior to the acquisition, Pembina, together with the other operating subsidiaries of the Fund, was managed by the Manager pursuant to a management agreement. As compensation for its services, the Manager was entitled to:

- (a) a management fee equal to 0.9825% of distributed cash;
- (b) an acquisition fee of 0.655% of the purchase price of any material pipeline asset or facility acquired or swapped;
- (c) a disposition fee of 0.49125% of the sales price of any material pipeline asset or facility sold; and
- (d) an annual incentive fee calculated as a percentage of distributed cash per Trust Unit as follows: 4.9125% of such distribution equal to or in excess of \$1.05 per Trust Unit annually but less than \$1.09 per Trust Unit annually; 6.55% of such distribution equal to or in excess of \$1.09 per Trust Unit annually but less than \$1.19 per Trust Unit annually; and 7.86% of such distribution equal to or in excess of \$1.19 per Trust Unit annually.

In 2006 the Manager was paid a management fee of \$1.0 million (2005: \$1.2 million).

Prior to the acquisition and pursuant to an administration agreement, as compensation for its administrative services to the Fund, the Manager received an annual fee of \$20,000.

Note 4. Business Segments:

The Fund conducts its operations through three operating segments: conventional pipelines, oil sands infrastructure and midstream business.

Conventional pipelines consists of the tariff based operations of pipelines and related facilities to deliver crude oil, condensate and natural gas liquids in Alberta and British Columbia.

Oil sands infrastructure consists of the AOSPL system, the completed Cheecham Lateral and the Horizon Pipeline. As at December 31, 2006, only the AOSPL system was operational. This operating segment consists of pipelines and related facilities to deliver synthetic crude oil produced from oil sands under long-term cost-of-service arrangements.

Midstream business consists of the Fund's direct and indirect interest in a storage operation and direct and contractual interests in terminalling, storage and hub services under a mixture of short, medium and long-term contractual agreements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Business Segments: (continued)

The financial results of the business segments are as follows:

	<i>Conventional Pipelines⁽²⁾</i>	<i>Oil Sands Infrastructure</i>	<i>Midstream Business</i>	<i>Total</i>
2006				
Revenues:				
Pipeline transportation	\$ 222,957	\$ 62,120	\$	\$ 285,077
Terminalling, storage and hub services ⁽¹⁾			50,741	50,741
Revenue before expenses	222,957	62,120	50,741	335,818
Expenses:				
Operations	89,860	24,839	4,311	119,010
General and administrative	22,758	1,255	1,595	25,608
Management fee	1,027			1,027
Depreciation and amortization	66,593	10,069	8,957	85,619
Accretion on asset retirement obligations	1,327	68		1,395
Internalization of management contract	6,000			6,000
	187,565	36,231	14,863	238,659
Earnings before interest and taxes	\$ 35,392	\$ 25,889	\$ 35,878	\$ 97,159
Property, plant and equipment	\$ 751,975	\$ 382,973	\$ 122,781	\$ 1,257,729
Goodwill and other	\$ 216,383	\$ 28,300	\$ 126,984	\$ 371,667

⁽¹⁾ Net of product purchases of \$5 million.

⁽²⁾ Less than 5% of conventional pipeline revenues are under regulated tolling arrangements.

2005

Revenues:

Pipeline transportation	\$ 204,331	\$ 55,472	\$	\$ 259,803
Terminalling, storage and hub services			30,719	30,719
Revenue before expenses	204,331	55,472	30,719	290,522
Expenses:				
Operations	80,388	18,523	3,825	102,736
General and administrative	15,462	1,227	402	17,091
Management fee	1,165			1,165
Depreciation and amortization	66,114	9,978	9,178	85,270
Accretion on asset retirement obligations	960	55		1,015
	164,089	29,783	13,405	207,277
Earnings before interest and taxes	\$ 40,242	\$ 25,689	\$ 17,314	\$ 83,245
Property, plant and equipment	\$ 747,810	\$ 298,052	\$ 115,829	\$ 1,161,691
Goodwill and other	\$ 207,486	\$ 28,300	\$ 130,630	\$ 366,416

A summary of the Fund's interest in the Fort Saskatchewan Ethylene Storage Partnership as at December 31, 2006 is as follows:

	2006	2005
Current assets	\$ 1,852	\$ 1,801
Working capital	1,852	1,801
Property, plant and equipment	95,472	100,477
Goodwill and other intangibles	126,984	130,630
Future income taxes	(53,759)	(57,031)
Investment in partnership	\$ 170,549	\$ 175,877
Revenues	\$ 21,891	\$ 21,543
Expenses	\$ 4,208	\$ 3,423
Net earnings	\$ 8,726	\$ 8,942
Cash flow from operations	\$ 17,683	\$ 18,120

Note 5. Property, Plant and Equipment:

	Cost	Accumulated Depreciation	2006 Net	2005 Net
Conventional pipelines ⁽¹⁾	\$ 1,261,090	\$ (509,115)	\$ 751,975	\$ 747,810
Oil sands infrastructure ⁽²⁾	423,856	(40,883)	382,973	298,052
Midstream business	142,298	(19,517)	122,781	115,829
	\$ 1,827,244	\$ (569,515)	\$ 1,257,729	\$ 1,161,691

⁽¹⁾ Includes \$7 million of deferred integrity costs on the Western system amortized over five years at the direction of the regulator.

⁽²⁾ Included in costs are assets under construction for Cheecham Lateral of \$37.8 million and Horizon Pipeline of \$49.4 million capitalized but not yet depreciated in 2006.

Depreciation expense in 2006 was \$81.7 million (2005: \$81.3 million).

Note 6. Goodwill and Other:

	Cost	Accumulated Amortization	2006 Net	2005 Net
Goodwill	\$ 287,670	\$	\$ 287,670	\$ 287,670
Other intangibles	75,000	(13,016)	61,984	65,630
Deferred charges	10,607	(1,816)	8,791	4,274
Pension asset	13,222		13,222	8,842
	\$ 386,499	\$ (14,832)	\$ 371,667	\$ 366,416

Amortization of deferred charges of \$3.9 million (2005: \$4.0 million) is included in depreciation and amortization expense and amortization of deferred charges of \$0.4 million (2005: \$0.3 million) is included in interest on long-term debt expense.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Long-Term Debt:

	<i>Available facilities at December 31, 2006</i>	<i>2006</i>	<i>2005</i>
Bank loans:			
Operating facility	\$ 30,000	\$ 688	\$ 10,826
Revolving credit facility	230,000	10,000	105,000
Senior unsecured notes – Series A	175,000	175,000	175,000
Senior unsecured notes – Series B	75,000	75,000	75,000
Senior unsecured notes – Series C	200,000	200,000	
Senior secured notes	92,681	92,681	98,236
	\$ 802,681	553,369	464,062
Less current portion		(5,973)	(7,968)
Balance December 31		\$ 547,396	\$ 456,094

The bank facilities are syndicated facilities established with Canadian chartered banks. On July 24, 2006, the revolving bank facilities of Pembina Pipeline Corporation, the principal operating subsidiary of the Fund, were renewed for a period of five years to July 24, 2011. There are no repayments due over the term. Borrowings bear interest at either prime lending rates or based on banker's acceptance rates plus applicable margins. The margins are based on the credit rating of the senior unsecured debt of Pembina Pipeline Corporation and range from 0.50% to 1.50%.

Series A senior unsecured notes bear interest at 5.99% payable semi-annually and are due June 15, 2014. Series B senior unsecured notes bear interest at the three month banker's acceptance rate plus 90 basis points payable quarterly in arrears and are due on June 22, 2009. On September 29, 2006, Pembina Pipeline Corporation closed a \$200 million private placement of senior unsecured notes with institutional investors in the United States and Canada. These Series C senior unsecured notes bear interest at 5.58% payable semi-annually and are due September 30, 2021. These notes are subject to the maintenance of certain financial ratios.

The \$92.7 million senior secured notes are due 2017 and bear interest at 7.38% per annum, compounded semi-annually and payable monthly in arrears. Blended monthly payments of principal and interest of approximately \$1 million are payable on the first day of each month through August 2017. These notes are subject to the maintenance of certain financial ratios, and are secured by a floating charge debenture on the assets of the Fund and its subsidiaries, guarantees of the subsidiaries and a pledge of the subsidiaries' shares.

At the beginning of the year, the Fund had entered into interest rate swaps for a notional amount aggregating \$85 million whereby the Fund receives a floating rate and pays a fixed rate. The \$25 million interest rate swap that was outstanding as at December 31, 2005 matured on August 29, 2006. The \$60 million remaining interest rate swap averaged a fixed rate of 5.23% and matures on June 9, 2008. The fair value of the swap at December 31, 2006 was an unrecognized loss of \$0.1 million (2005: \$0.6 million).

Scheduled payments of principal on the notes in the next five years are as follows (the renewed bank facilities have no repayments due over the term):

<i>Year</i>	<i>Notes</i>
2007	\$ 5,973
2008	6,422
2009	81,904
2010	7,423
2011	7,981
	\$ 109,703

Note 8. Convertible Debentures:

	8.25%	7.50%	7.35%	<i>Total</i>
Balance, January 1, 2005	\$ 11,134	\$ 31,204	\$ 209,325	\$ 251,663
Conversions	(3,134)	(7,362)	(83,127)	(93,623)
Balance, December 31, 2005	8,000	23,842	126,198	158,040
Conversions	(8,000)	(8,709)	(64,519)	(81,228)
Balance, December 31, 2006	\$	\$ 15,133	\$ 61,679	\$ 76,812

The 8.25% convertible unsecured subordinated debentures matured on March 31, 2006.

The 7.5% convertible unsecured subordinated debentures mature on June 30, 2007, with interest payable semi-annually on June 30 and December 31. The debentures may be converted at the option of the holder at a conversion price of \$10.50 per Trust Unit at any time prior to maturity and may be redeemed by the Fund. The Fund may, at its option, elect to redeem the debentures by issuing Trust Units. The Fund can elect to pay interest on the debentures by issuing Trust Units.

The 7.35% convertible unsecured subordinated debentures mature on December 31, 2010, with interest payable semi-annually in arrears on June 30 and December 31. The debentures may be converted at the option of the holder at a conversion price of \$12.50 per Trust Unit at any time prior to maturity and may be redeemed by the Fund. The Fund may, at its option after June 30, 2006, elect to redeem the debentures by issuing Trust Units. The Fund can elect to pay interest on the debentures by issuing Trust Units.

The Fund did not allocate a portion of the convertible debentures to equity as the calculation of the equity component was not significant when such an allocation was based on an approximate interest rate that would have been applicable to the issuance of similar debt without the conversion features at the time the debentures were issued.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Employee Future Benefits:

A subsidiary of the Fund maintains two non-contributory defined benefit pension plans covering its employees: a funded registered plan for all employees and an unfunded supplemental retirement plan for those employees affected by the Canada Revenue Agency maximum pension limits. Benefits under the plans are based on the length of service and the final average best three years of earnings of the employee. Benefits paid out of the plans are not indexed.

The subsidiary funds these plans in accordance with government regulations by contributing to trust funds administered by an independent trustee. The funds are invested primarily in equities and bonds.

The Fund measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation is dated December 31, 2005.

Plan contributions totaled \$9 million in 2006 (2005: \$13.3 million).

Information about the defined benefit plan is as follows:

	2006	2005
Accrued benefit obligation		
Accrued benefit obligation, beginning of year	\$ 72,768	\$ 58,257
Current service cost	3,878	2,996
Interest cost	3,693	3,526
Benefits paid	(5,588)	(2,967)
Actuarial loss	3,531	10,956
Accrued benefit obligation, end of year	\$ 78,282	\$ 72,768
Plan assets		
Fair value of plan assets, beginning of year	\$ 61,140	\$ 45,828
Actual return on plan assets	7,657	4,930
Employer contributions	9,000	13,349
Benefits paid	(5,588)	(2,967)
Fair value of plan assets, end of year	\$ 72,209	\$ 61,140
Funded status		
Deficit	\$ (6,073)	\$ (11,628)
Unamortized net actuarial loss	21,863	23,324
Unamortized transitional asset	(2,568)	(2,854)
Accrued benefit asset	\$ 13,222	\$ 8,842

Plan assets consist of:

Asset category	Percentage of plan assets	
Equity securities	68%	64%
Debt securities	30%	36%
Cash	2%	
Total	100%	100%

Less than 0.1% of the plan assets are invested in securities of the Fund.

The net benefit plan expense is as follows:

	2006	2005
Current service cost	\$ 3,878	\$ 2,996
Interest cost	3,693	3,526
Actual return on plan assets	(7,657)	(4,930)
Actuarial loss on accrued benefit obligation	3,531	10,956
Cost arising in the period	3,445	12,548
Differences between costs arising in the period and costs recognized in the period in respect of:		
Return on plan assets	3,451	1,586
Actuarial gains and losses	(1,993)	(10,466)
Transitional asset	(285)	(285)
Net benefit plan expense	\$ 4,618	\$ 3,383

Assumptions for the expense and accrued benefit obligation are as follows:

	2006	2005
Assumptions for expense		
Discount rate	5.0%	5.9%
Expected long-term rate of return on plan assets	6.75%	7.0%
Rate of compensation increase	4.35%	4.0%
Assumptions for accrued benefit obligation		
Discount rate	5.2%	5.0%
Rate of compensation increase	5.32%	4.4%

The Fund has a non-pension post employment benefit plan which has an unfunded benefit obligation of \$1.8 million (2005: \$2.0 million). In 2006 there was a plan expense of \$0.3 million (2005: \$0.4 million).

Note 10. Asset Retirement Obligations:

The Fund has estimated the net present value of its total asset retirement obligations based on a total future liability (adjusted for 3% inflation per annum) of \$187 million (2005: \$139 million). The obligations are expected to be paid over the next 50 years with substantially all being paid after 30 years. The Fund used credit adjusted risk free rates ranging from 5.95% to 7.4% to calculate the present value of the asset retirement obligations.

The property, plant and equipment of the Fund consists primarily of underground pipelines, above ground equipment facilities and storage assets. No amount has been recorded relating to the removal of the underground pipelines or the storage assets as the potential obligations relating to these assets cannot be reasonably estimated due to the indeterminate timing or scope of the asset retirement. As the timing and scope of retirement become determinable for these assets, the fair value of the liability and the cost of retirement will be recorded.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Asset Retirement Obligations: (continued)

	2006	2005
Obligations, beginning of year	\$ 19,716	\$ 15,729
Change in obligation estimate	8,778	2,972
Accretion expense	1,395	1,015
Obligations, end of year	\$ 29,889	\$ 19,716

Note 11. Income Taxes:

The components of the subsidiaries' future income tax liability are as follows:

	2006	2005
Difference between book values and tax values of:		
Property, plant and equipment	\$ 96,992	\$ 126,206
Intangibles	13,686	16,549
Taxable limited partnership income deferral	41,662	43,271
Deferred revenue	(2,423)	
Benefit of loss carry-forwards	(29,393)	(43,034)
Other	(6,907)	(5,069)
	\$ 113,617	\$ 137,923

The provision for income taxes in the financial statements differs from the result which would have been obtained by applying the combined federal and provincial tax rate to the Fund's earnings before taxes. This difference results from the following items:

	2006	2005
Earnings before taxes	\$ 64,579	\$ 42,769
Combined statutory rate	32.5%	33.6%
Income taxes at the statutory rate	20,988	14,370
Increase (decrease) resulting from:		
Tax rate changes on future income tax balances	(14,344)	
Capital taxes		1,737
Interest on convertible debentures	2,503	5,577
Non-deductible items	2,277	
Interest deductions of subsidiaries arising from intercorporate debt	(38,907)	(39,412)
Other	3,177	(9,912)
Income taxes	\$ (24,306)	\$ (27,640)

On October 31, 2006, the Federal Government announced a proposed trust taxation of 31.5% of distributions which may be effective January 31, 2011 that may impact the Fund's current and future income taxes.

Note 12. Trust Units:

The Fund is authorized to create and issue an unlimited number of Trust Units.

	<i>Trust Units</i>	<i>Amount</i>
Balance, January 1, 2005	102,933,221	\$ 941,902
Exercise of option plan options	644,039	6,762
Debenture conversions	8,033,423	93,623
Distribution Reinvestment Plan	2,286,319	31,250
Balance, December 31, 2005	113,897,002	1,073,537
Exercise of option plan options	276,317	3,271
Debenture conversions	7,131,696	81,227
Distribution Reinvestment Plan	4,912,873	76,639
Contributed Surplus (Note 13)		1,135
Balance, December 31, 2006	126,217,888	\$ 1,235,809

Trust Units are redeemable at any time at the option of the holder. The redemption price is equal to the lesser of 95% of the average market price of the Trust Units during a 10 day period commencing immediately after the redemption date and the closing market price on the redemption date. The total amount payable by the Fund in respect of redemptions in any calendar month shall not exceed \$250,000. To the extent that a Unitholder is not entitled to receive cash upon the redemption of the Trust Units, the redemption price shall be satisfied by way of the Fund distributing a pro-rata number of Pembina notes, shares or securities of other businesses, if any, acquired from time to time.

A Unitholders' rights plan was approved by the Unitholders on April 28, 2005 for a further three year period. If a bid to acquire control of the Fund is made, the plan is designed to give the board of directors time to consider alternatives to allow Unitholders to receive full and fair value for their Trust Units. In the event that a bid, other than a permitted bid, is made, Unitholders become entitled to exercise rights to acquire Trust Units of the Fund at 50% of market value.

The Fund has adopted a Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan ("DRIP"). This Plan allows participants an opportunity, under the distribution reinvestment component of the plan, to reinvest distributions into Trust Units at a five percent discount to a weighted average market price or, alternatively, under the premium distribution component of the Plan, to realize two percent more cash on their distributions. Eligible Unitholders can also make optional Trust Unit purchases at the weighted average market price.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Unit-Based Compensation:

The Fund has an option plan under which directors, officers and employees are eligible to receive options. The number of Trust Units reserved for issuance is 6,585,907 representing 3,410,900 options issued and exercisable, 3,117,510 options reserved for future grants and 57,497 units which have been cancelled.

On November 30, 2006, the directors approved a new grant of 3,410,900 options which were granted to certain employees (excluding officers) at an exercise price of \$14.74, one-third of which vested immediately, one-third of which will vest on the first anniversary date of the grant, and one-third of which will vest on the second anniversary date of the grant. The options expire seven calendar years after their grant date.

The following tables summarize information about the outstanding options at December 31, 2006 and 2005:

	<i>Number of options</i>	<i>Weighted average exercise price</i>
Outstanding and exercisable, January 1, 2005	1,137,967	\$ 9.87
Granted	728,897	13.85
Exercised	(644,039)	10.33
Expired	(17,500)	10.81
Outstanding and exercisable, December 31, 2005	1,205,325	12.02
Granted	3,410,900	14.74
Exercised	(276,317)	11.84
Expired	(294)	13.85
Outstanding and exercisable, December 31, 2006	4,339,614	\$ 14.17

<i>Exercise Price</i>	<i>Number outstanding at December 31, 2006</i>	<i>Options exercisable</i>	<i>Weighted average remaining life (years)</i>
\$ 7.95	54,200	54,200	0.8
\$ 8.05	15,000	15,000	0.6
\$ 10.56	377,470	377,470	2.9
\$ 13.85	482,044	482,044	5.3
\$ 14.74	3,410,900	1,136,967	6.9
\$ 7.95 to \$ 14.74	4,339,614	2,065,681	6.3

The fair value of each unit option is estimated on the date of grant using the Black-Scholes option pricing model. The weighted average fair values of the options granted during the year and the weighted average assumptions used in their determination are as follows:

	2006	2005
Annual distribution yield	9.0%	8.0%
Risk free interest rate	3.8%	4.0%
Expected life	5 years	7 years
Expected volatility	20%	24%
Weighted average fair value per option	\$ 0.74	\$ 0.76

The Fund expensed \$1.1 million for the year ended December 31, 2006 (2005: \$0.1 million).

A long term incentive plan was established in 2005. Under this new unit-based compensation plan, awards of restricted units are made to qualifying employees and directors. The plan will result in participants receiving cash compensation based on the value of underlying notional Trust Units granted under the plan. The units vest in equal annual amounts over a three year period and the cash payments will be based on a trading value of the Trust Units plus notional accrued distributions. As at December 31, 2006, 25,943 awards were still outstanding from the 2005 grant.

In 2006, the Fund granted 103,964 awards of restricted units. At December 31, 2006, 64,460 awards had vested of which 25,940 related to the 2005 grant. Based on the ninety-day weighted average trading price of the Trust Units prior to December 31, 2006, the estimated intrinsic value of the restricted Trust Units awarded to December 31, 2006 totaled \$1.6 million (2005: \$1.3 million). The Fund has recorded compensation expense of \$1.0 million in 2006 (2005: \$0.6 million) relating to vested awards.

Note 14. Earnings Per Trust Unit:

The following table summarizes the computation of net earnings per Trust Unit:

	2006	2005
Net earnings		
Numerator for basic and diluted earnings per Trust Unit	\$ 88,885	\$ 70,409
Denominator:		
Weighted average denominator for basic Trust Units	122,094	108,108
Dilutive instruments:		
Employee options	283	283
Denominator for diluted earnings per Trust Unit	122,377	108,391
Basic and diluted earnings per Trust Unit	\$ 0.73	\$ 0.65

The convertible debentures are not considered in the calculation of diluted earnings per Trust Unit as the actual calculation is anti-dilutive. The diluted earnings per Trust Unit are reported the same as basic earnings per Trust Unit as the options have minimal dilutive impact.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15. Change In Non-Cash Working Capital:

	2006	2005
Accounts receivable	\$ (13,935)	\$ (4,580)
Accounts payable and accrued liabilities	18,922	6,821
	\$ 4,987	\$ 2,241
Operations	\$ (4,851)	\$ (5,353)
Investments	\$ 9,838	\$ 7,594

Note 16. Financial Instruments:*Fair value of financial assets and liabilities*

Financial instruments of the Fund consist of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, distributions payable to Unitholders, long-term debt and convertible debentures. There are no material differences in the carrying amounts of the financial instruments reported on the balance sheet compared to the estimated fair values except as follows:

	2006		2005	
	<i>Carrying Amount</i>	<i>Fair Value</i>	<i>Carrying Amount</i>	<i>Fair Value</i>
Long-term debt				
Senior secured notes ⁽¹⁾	\$ 92,681	\$ 101,080	\$ 98,236	\$ 107,222
Senior unsecured notes ⁽¹⁾	\$ 450,000	\$ 462,784	\$ 250,000	\$ 260,959
Convertible debenture ⁽²⁾	\$ 76,812	\$ 103,713	\$ 158,040	\$ 219,000

⁽¹⁾ Fair values determined by discounting the future contractual cash flows under note agreements at discount rates which represent borrowing rates available to funds for loans with similar terms and conditions

⁽²⁾ Fair values determined based on available market information

Interest rate and power cost risk management

At December 31, 2006 the Fund was exposed to changes in interest rates on \$25.7 million of bank borrowings. The Fund has fixed the interest rate on \$60 million of bank borrowings through interest rate swaps (refer to Note 7). The Fund is exposed to changes in the cost of power. At December 31, 2006 the Fund has fixed the price on non-transmission power charges by way of price swap contracts which expire in 2010. The fair value of these contracts at December 31, 2006 was an unrealized gain of \$7.6 million (2005: \$1.3 million).

Credit risk

A major portion of the accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. The Fund has historically collected its accounts receivable in full. The Fund has the ability to exercise lien rights on oil and natural gas liquids which are in custody of the Fund during the transportation of such product on the pipelines.

The Fund is exposed to credit risk from counter parties on its interest rate and power cost swaps. The Fund minimizes credit risk by entering into risk management transactions only with entities that have investment grade credit ratings.

Note 17. Commitments:

The Fund is committed to annual payments as follows:

<i>Contractual Obligations</i>	<i>Payments Due by Period</i>				
	<i>Total</i>	<i>Less than 1 year</i>	<i>1 – 3 years</i>	<i>4 – 5 years</i>	<i>After 5 years</i>
Office and vehicle leases	14,716	3,320	5,104	3,550	2,742

In 2005 the Fund entered into pipeline agreements that will require future capital expenditures. The construction of additional pipelines to provide the contracted transportation capacity is estimated to cost \$350 million.

SUPPLEMENTARY INFORMATION (unaudited)**CONSOLIDATED BALANCE SHEETS**

Years ended December 31, 2006, 2005, 2004, 2003, and 2002
(in thousands of dollars)

	2006	2005	2004	2003	2002
ASSETS					
Current assets:					
Cash and term deposits	\$ 1,861	\$	\$	\$ 3,266	\$ 4,259
Accounts receivable	44,947	31,012	26,432	33,718	30,292
	46,808	31,012	26,432	36,984	34,551
Property, plant and equipment	1,257,729	1,161,691	1,160,613	1,183,437	1,005,241
Goodwill and other	371,667	366,416	361,855	362,428	224,798
	\$ 1,676,204	\$ 1,559,119	\$ 1,548,900	\$ 1,582,849	\$ 1,264,590
LIABILITIES AND UNITHOLDERS' EQUITY					
Current liabilities:					
Bank indebtedness	\$	\$ 7,311	\$ 2,971	\$	\$
Accounts payable and accrued liabilities	37,411	18,489	12,792	23,017	24,397
Distributions payable to Unitholders	12,622	9,966	9,007	8,642	8,189
Current portion of long-term debt	5,973	7,968	3,522	134,000	3,300
Current portion of convertible debentures	15,133	8,000			
	71,139	51,734	28,292	165,659	35,886
Long-term debt	547,396	456,094	430,866	282,111	322,959
Convertible debentures	61,679	150,040	251,663	264,653	73,873
Asset retirement obligations	29,889	19,716	15,729	14,777	13,789
Future income taxes	113,617	137,923	167,300	200,600	164,100
	823,720	815,507	893,850	927,800	610,607
Unitholders' equity					
Trust Units	1,235,809	1,073,537	941,902	896,132	842,014
Deficit	(383,325)	(329,925)	(286,852)	(241,083)	(188,031)
	852,484	743,612	655,050	655,049	653,983
	\$ 1,676,204	\$ 1,559,119	\$ 1,548,900	\$ 1,582,849	\$ 1,264,590

CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT

*Years ended December 31, 2006, 2005, 2004, 2003, and 2002
(in thousands of dollars except per Trust Unit amounts)*

	2006	2005	2004	2003	2002
Revenues:					
Conventional pipelines	\$ 222,957	\$ 204,331	\$ 201,734	\$ 185,987	\$ 186,152
Oil sands infrastructure	62,120	55,472	54,104	44,548	36,936
Midstream business	50,741	30,719	23,285	12,638	2,329
	335,818	290,522	279,123	243,173	225,417
Expenses:					
Operations	119,010	102,736	105,028	96,151	88,972
General and administrative	25,608	17,091	15,017	12,341	12,626
Management fee	1,027	1,165	1,076	1,024	976
Depreciation and amortization	85,619	85,270	83,695	76,997	67,973
Accretion on asset retirement obligations	1,395	1,015	952	988	1,660
Internalization of management contract	6,000				
	238,659	207,277	205,768	187,501	172,207
Earnings before interest and taxes	97,159	83,245	73,355	55,672	53,210
Interest on long-term debt	(24,880)	(23,877)	(24,131)	(20,291)	(15,835)
Interest on convertible debentures	(7,700)	(16,599)	(19,890)	(13,772)	(7,318)
Earnings before taxes	64,579	42,769	29,334	21,609	30,057
Income and capital taxes (reduction)	(24,306)	(27,640)	(31,089)	(26,346)	(20,501)
Net earnings	88,885	70,409	60,423	47,955	50,558
Deficit, beginning of year	(329,925)	(286,852)	(241,083)	(188,031)	(142,301)
Distributed cash	(142,285)	(113,482)	(106,192)	(101,007)	(96,288)
Deficit, end of year	\$ (383,325)	\$ (329,925)	\$ (286,852)	\$ (241,083)	\$ (188,031)
Earnings per Trust Unit – basic and diluted	\$ 0.73	\$ 0.65	\$ 0.60	\$ 0.50	\$ 0.55

SUPPLEMENTARY INFORMATION (unaudited)**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended December 31, 2006, 2005, 2004, 2003, and 2002
(in thousands of dollars)

	2006	2005	2004	2003	2002
Cash provided by (used in):					
Operating activities:					
Net earnings	\$ 88,885	\$ 70,409	\$ 60,423	\$ 47,955	\$ 50,558
Items not involving cash:					
Depreciation and amortization	85,619	85,270	83,695	76,997	67,973
Accretion on asset retirement obligations	1,395	1,015	952	988	1,660
Future income tax reduction	(24,306)	(29,377)	(33,300)	(28,500)	(21,700)
Employee future benefits expense	4,620	3,383	3,609	3,165	2,266
Trust Unit based compensation expense	1,135				
Other	363	362	584	408	408
Employee future benefits contributions	(9,000)	(13,349)	(4,436)	(4,700)	
Changes in non-cash working capital	(4,851)	(5,353)	6,054	(5,465)	(3,647)
Cash flow from operations	143,860	112,360	117,581	90,848	97,518
Financing activities:					
Bank borrowings	59,862	31,438	18,277	112,018	21,259
Issue of senior notes, net of issue costs	194,842		247,125		98,630
Repayment of long-term debt	(165,000)		(250,000)	(22,166)	(110,000)
Repayment of senior secured notes	(5,555)	(1,764)			
Issue of convertible debentures				210,602	
Issue of Trust Units on exercise of options	3,271	6,762	3,030	6,508	733
Issue of Trust Units under					
Distribution Reinvestment Plan	76,639	31,250	29,750	27,788	6,896
Distributions to Unitholders					
– current year	(129,664)	(103,516)	(97,185)	(92,365)	(88,099)
– prior year	(9,966)	(9,007)	(8,642)	(8,189)	(7,687)
	24,429	(44,837)	(57,645)	234,196	(78,268)
Investing activities:					
Acquisition of storage facility				(188,436)	
Capital expenditures	(168,955)	(79,457)	(58,007)	(139,795)	(28,463)
Changes in non-cash working capital	9,838	7,594	(8,166)	2,194	8,908
	(159,117)	(71,863)	(66,173)	(326,037)	(19,555)
Change in cash	9,172	(4,340)	(6,237)	(993)	(305)
Cash (bank indebtedness), beginning of year	(7,311)	(2,971)	3,266	4,259	4,564
Cash (bank indebtedness), end of year	\$ 1,861	\$ (7,311)	\$ (2,971)	\$ 3,266	\$ 4,259

FIVE YEAR OPERATING STATISTICS

Years ended December 31,
2006, 2005, 2004, 2003 and 2002

	2006	2005	2004	2003	2002
AVERAGE ANNUAL THROUGHPUT (in thousands of barrels per day)					
Alberta					
Conventional crude oil	235.1	213.5	213.6	227.5	257.6
Condensate	50.3	53.2	54.0	52.4	54.0
Natural gas liquids	140.4	144.9	141.9	153.7	160.2
Total Alberta pipeline systems	425.8	411.6	409.5	433.6	471.8
British Columbia (BC) ⁽¹⁾					
Conventional crude oil	22.7	23.8	25.5	27.5	17.2
Oil sands pipeline ⁽²⁾					
Synthetic crude oil	389.0	389.0	303.7	275.0	275.0
Total Pembina					
Conventional crude oil	257.8	237.3	239.1	255.0	274.8
Synthetic crude oil ⁽²⁾	389.0	389.0	303.7	275.0	275.0
Condensate	50.3	53.2	54.0	52.4	54.0
Natural gas liquids	140.4	144.9	141.9	153.7	160.2
TOTAL AVERAGE THROUGHPUT	837.5	824.4	738.7	736.1	764.0
THROUGHPUT COMPOSITION (% of total)					
Conventional crude oil	30.8%	28.8%	32.4%	34.6%	36.0%
Synthetic crude oil ⁽²⁾	46.4%	47.2%	41.1%	37.4%	36.0%
Condensate and natural gas liquids	22.8%	24.0%	26.5%	28.0%	28.0%
PIPELINE REVENUE (in millions of dollars)					
Alberta	\$ 195.2	\$ 179.0	\$ 173.4	\$ 162.1	\$ 170.4
BC	27.8	25.3	28.3	23.9	17.6
Oil sands	62.1	55.5	54.1	44.5	35.1
Pipeline revenue	285.1	259.8	255.8	230.5	223.1
MIDSTREAM REVENUE	50.7	30.7	23.3	12.6	2.3
TOTAL REVENUE	\$ 335.8	\$ 290.5	\$ 279.1	\$ 243.1	\$ 225.4
Average revenue (dollars per barrel)					
(excluding oil sands and midstream results)	\$ 1.27	\$ 1.20	\$ 1.18	\$ 1.01	\$ 0.98

⁽¹⁾ BC volume is Western system throughput only.

⁽²⁾ Oil sands pipelines results are shown as contracted capacity as revenue is independent of throughput. Actual throughputs were 263.5 mbbls/d for 2006, 218.7 mbbls/d for 2005, 243.6 mbbls/d for 2004, 217.6 mbbls/d for 2003 and 235.0 mbbls/d for 2002.

QUARTERLY FINANCIAL STATISTICS

	2006					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year ended Dec. 31/06	Year ended Dec. 31/05
<i>(in thousands, except per Trust Unit amounts)</i>						
Operating revenue	\$ 81,506	\$ 80,924	\$ 85,326	\$ 88,062	\$ 335,818	\$ 290,522
Operating expense	29,572	27,733	29,171	32,534	119,010	102,736
General and administrative	6,693	7,118	5,894	5,903	25,608	17,091
Management fee	508	519			1,027	1,165
Depreciation and amortization	21,567	21,937	20,428	21,687	85,619	85,270
Accretion on asset retirement obligations	351	347	349	348	1,395	1,015
Internalization of management contract		6,000			6,000	
Earnings before interest and taxes	22,815	17,270	29,484	27,590	97,159	83,245
Interest on long term debt	5,802	5,371	6,510	7,197	24,880	23,877
Interest on convertible debentures	2,560	1,880	1,700	1,560	7,700	16,599
Capital and income taxes	305	(305)				
Future income tax reduction and capital taxes	(6,003)	(6,616)	(3,289)	(8,398)	(24,306)	(27,640)
NET EARNINGS	20,151	16,940	24,563	27,231	88,885	70,409
Add/(Deduct):						
Depreciation and amortization	21,567	21,937	20,428	21,687	85,619	85,270
Accretion on asset retirement obligations	351	347	349	348	1,395	1,015
Future income tax reduction	(6,003)	(6,616)	(3,289)	(8,398)	(24,306)	(29,377)
Maintenance capital expenditures	(422)	(934)	(1,109)	(949)	(3,414)	(3,923)
(Increase) decrease in distribution reserve	(2,073)	2,893	(4,481)	(2,233)	(5,894)	(9,912)
DISTRIBUTED CASH ⁽¹⁾	\$ 33,571	\$ 34,567	\$ 36,461	\$ 37,686	\$ 142,285	\$ 113,482
Trust Units outstanding (weighted average in thousands)	117,784	121,289	123,576	125,625	122,094	108,108
Distributed cash per Trust Unit	\$ 0.2850	\$ 0.2850	\$ 0.2950	\$ 0.3000	\$ 1.16500	\$ 1.05000
– taxable “income from a trust”	\$ 0.2188	\$ 0.2188	\$ 0.2265	\$ 0.2303	\$ 0.89430	\$ 0.88848
– non-taxable “capital distribution from a trust”	\$ 0.0662	\$ 0.0662	\$ 0.0685	\$ 0.0697	\$ 0.27070	\$ 0.16152

⁽¹⁾ Pembina Pipeline Income Fund distributes cash generated by the pipeline operations of Pembina Pipeline Corporation and other operating subsidiaries.

QUARTERLY SEGMENTED INFORMATION

	2006					
(in millions)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year ended Dec. 31/06	Year ended Dec. 31/05
OPERATING REVENUE						
Conventional pipelines	\$ 56.5	\$ 54.7	\$ 53.9	\$ 57.9	\$ 223.0	\$ 204.3
Oil sands infrastructure	14.7	13.7	16.1	17.6	62.1	55.5
Midstream business	10.3	12.6	15.3	12.5	50.7	30.7
Total	\$ 81.5	\$ 81.0	\$ 85.3	\$ 88.0	\$ 335.8	\$ 290.5
OPERATING EXPENSE						
Conventional pipelines	\$ 22.8	\$ 22.5	\$ 21.5	\$ 23.1	\$ 89.9	\$ 80.4
Oil sands infrastructure	5.7	4.2	6.6	8.3	24.8	18.5
Midstream business	1.1	1.0	1.1	1.1	4.3	3.8
Total	\$ 29.6	\$ 27.7	\$ 29.2	\$ 32.5	\$ 119.0	\$ 102.7
NET OPERATING INCOME						
Conventional pipelines	\$ 33.7	\$ 32.2	\$ 32.4	\$ 34.8	\$ 133.1	\$ 123.9
Oil sands infrastructure	9.0	9.5	9.5	9.3	37.3	37.0
Midstream business	9.2	11.6	14.2	11.4	46.4	26.9
Total	\$ 51.9	\$ 53.3	\$ 56.1	\$ 55.5	\$ 216.8	\$ 187.8

SUPPLEMENTARY INFORMATION (unaudited)

QUARTERLY OPERATING STATISTICS

	2006					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year ended Dec. 31/06	Year ended Dec. 31/05
PIPELINE THROUGHPUT – BY PIPELINE SYSTEM						
(thousands of barrels per day)						
Alberta	427.6	426.3	415.1	434.2	425.8	411.6
BC	26.7	17.2	23.3	23.6	22.7	23.8
Oil sands ⁽¹⁾	389.0	389.0	389.0	389.0	389.0	389.0
Total pipeline throughput	843.3	832.5	827.4	846.8	837.5	824.4
Average revenue (\$ per barrel)	1.13	1.04	1.00	1.03	1.05	1.04
REVENUE (\$ per barrel) (excluding storage revenue)						
Alberta	1.26	1.25	1.26	1.26	1.26	1.19
BC	1.49	1.37	1.17	1.49	1.38	1.24
Oil sands ⁽¹⁾	0.78	0.61	0.61	0.62	0.65	0.69
System-wide average	1.13	1.04	1.00	1.03	1.05	1.04
System-wide average (excluding Oil Sands)	1.28	1.26	1.25	1.29	1.27	1.20
OPERATING EXPENSE (\$ per barrel)						
Alberta	0.46	0.48	0.46	0.46	0.46	0.44
BC	0.95	0.83	0.80	0.94	0.88	0.74
Oil sands ⁽¹⁾	0.30	0.19	0.25	0.29	0.26	0.23

⁽¹⁾ Results for oil sands pipelines show contracted capacity rather than actual throughput. Revenue per barrel and operating expense per barrel calculations are based on actual throughputs of 209.5 mbbls/d for Q1 2006, 245.9 mbbls/d for Q2 2006, 288.5 mbbls/d for Q3 2006, 308.6 mbbls/d for Q4 2006, 263.5 mbbls/d for 2006, and 218.7 mbbls/d for 2005.

TRUST UNIT TRADING ACTIVITY ⁽¹⁾

	2006					
	<i>1st Quarter</i>	<i>2nd Quarter</i>	<i>3rd Quarter</i>	<i>4th Quarter</i>	<i>Year ended Dec. 31/06</i>	<i>Year ended Dec. 31/05</i>
Unit trading price – high	\$ 18.58	\$ 18.19	\$ 17.75	\$ 18.35	\$ 18.58	\$ 17.03
– low	\$ 15.80	\$ 15.11	\$ 15.64	\$ 12.88	\$ 12.88	\$ 12.58
– close	\$ 18.05	\$ 16.25	\$ 17.35	\$ 15.83	\$ 15.83	\$ 15.95
Volume traded (number of Trust Units)	16,704,362	15,110,094	11,754,474	21,162,297	64,731,227	57,295,154
Value traded (dollars)	288,119,018	249,594,824	195,119,141	329,511,342	1,062,344,325	827,360,109
Trust Units outstanding (end of period)	119,816,422	122,029,824	124,261,992	126,217,888	126,217,888	113,897,002
Trust Units outstanding (weighted average)	117,783,920	121,288,897	123,575,781	125,625,433	122,094,123	108,108,142

1. STATE OF MINNESOTA, BY THE PEOPLE, VS. THE STATE OF MINNESOTA, BY THE PEOPLE

HISTORIC UNITHOLDER DISTRIBUTIONS AND TAX TREATMENT ⁽²⁾

(\$ per Trust Unit)	1997	1998	1999	2000	2001
Total annual distribution					
declared (\$ per Trust Unit)	0.140000	0.950000	0.950000	0.960000	1.050000
Taxable "other income"	0.099200	0.618900	0.783000	0.770208	0.900768
Non-taxable "return of capital"	0.040800	0.331100	0.167000	0.189792	0.149232
Cost base – beginning of period	10.000000	9.959200	9.628100	9.461100	9.271308
Less: return of capital	0.040800	0.331100	0.167000	0.189792	0.149232
Cost base – end of period	9.959200	9.628100	9.461100	9.271308	9.122076
	2002	2003	2004	2005	2006
Total annual distribution					
declared (\$ per Trust Unit)	1.050000	1.050000	1.050000	1.050000	1.165000
Taxable "other income"	0.893160	0.970680	1.037880	0.888480	0.894341
Non-taxable "return of capital"	0.156840	0.079320	0.012120	0.161520	0.270658
Cost base – beginning of period	9.122076	8.965236	8.885916	8.873796	8.712276
Less: return of capital	0.156840	0.079320	0.012120	0.161520	0.270658
Cost base – end of period	8.965236	8.885916	8.873796	8.712276	8.441618

⁽¹⁾ Pembina Pipeline Income Fund Trust Units trade on the Toronto Stock Exchange under the symbol PIF.UN

⁽²⁾ Cost base for units held from inception (October 1997)

KEY PERSONNEL

OFFICERS

Robert B. Michaleski
President and Chief Executive Officer

Peter D. Robertson
Vice President and Chief Financial Officer

D. James Watkinson
Vice President, General Counsel and Secretary

S. Bruce Harris
Vice President, Operations

Michael H. Dilger
Vice President, Business Development

Glenys E. Hermanutz
Vice President, Corporate Affairs

BOARD OF DIRECTORS

Lorne B. Gordon
Chairman
Calgary, Alberta
Corporate Director

Robert B. Michaleski
Calgary, Alberta
President and Chief Executive Officer
Pembina Pipeline Corporation

David A. Bissett
Calgary, Alberta
Corporate Director

Allan L. Edgeworth
Calgary, Alberta
Corporate Director

Myron F. Kanik
Calgary, Alberta
Corporate Director

David N. Kitchen
Calgary, Alberta
Corporate Director

Robert F. Taylor
Calgary, Alberta
Corporate Director

CORPORATE INFORMATION

HEAD OFFICE

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Suite 2000, 700 – 9th Avenue S.W.
P.O. Box 1948
Calgary, Alberta T2P 2M7

AUDITORS

KPMG LLP

Chartered Accountants
Calgary, Alberta

TRUSTEE AND REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada

Suite 600, 530 – 8th Avenue S.W.
Calgary, Alberta T2P 3S8
Shareholder Communications
1-800-564-6253

STOCK EXCHANGE

Pembina Pipeline Income Fund

Trust Units are listed on the Toronto Stock Exchange
under the symbol PIF.UN

7.50% Convertible Debentures

Symbol: PIF.DBA

7.35% Convertible Debentures

Symbol: PIF.DB.B

CREDIT AGENCY RATING

Pembina Pipeline Income Fund

DBRS Stability Rating

STA-2 (low)

S&P Stability Rating

SR-2

Pembina Pipeline Corporation

DBRS senior secured debt rating 'BBB high'

DBRS senior unsecured debt rating 'BBB'

S&P's credit profile rating 'BBB'

S&P's senior secured debt rating 'BBB plus'

S&P's senior unsecured debt rating 'BBB'

INVESTOR INQUIRIES CONTACT

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Email investor-relations@pembina.com

Website www.pembina.com

The following documents are available at Pembina's website:

- Annual and Quarterly Reports
- Unit Trading Information
- Tax Information
- Press Releases
- Investor Presentations
- Distribution Information

ANNUAL GENERAL MEETING

Unitholders are invited to attend Pembina's annual general meeting on April 27, 2007 at 2:00 pm. The meeting will be held in the Grand Lecture Theatre, The Metropolitan Centre, 333 – 4th Avenue S.W., Calgary, Alberta.

PREMIUM DISTRIBUTION, DISTRIBUTION REINVESTMENT AND OPTIONAL UNIT PURCHASE PLAN

Pembina offers a Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan to eligible Unitholders of the Pembina Pipeline Income Fund.

The Plan allows participants an opportunity to:

- Reinvest distribution into Trust Units at a five percent discount to a weighted average market price, under the distribution reinvestment component of the Plan; or,
- Realize two percent more cash on their distributions, under the premium distribution component of the Plan
- Eligible Unitholders may also make optional Trust Unit purchases at the weighted average market price.

A brochure, detailing administration of the Plan and eligibility and enrolment information, is available on-line on Pembina's website located at www.pembina.com or call 1-888-428-3222 to receive a copy by mail.

Unitholders wishing to enroll in the Plan are asked to contact their financial advisor.

ABBREVIATIONS

mbbls/d	thousands of barrels per day
NGL	natural gas liquids
\$/bbl	dollars per barrel of pipeline throughput
cents/bbl	cents per barrel of pipeline throughput

Senior Management Team



Each member of management has been actively engaged in the oil and gas industry in western Canada for numerous years. This overall experience is crucial to ensuring the successful execution of Pembina's business strategy.

From left to right:

Peter D. Robertson
Vice President and Chief Financial Officer

Michael H. Dilger
Vice President, Business Development

Glenys E. Hermanutz
Vice President, Corporate Affairs

S. Bruce Harris
Vice President, Operations

D. James Watkinson
Vice President, General Counsel and Secretary



Pembina Pipeline Income Fund

WWW.PEMBINA.COM